S. Hrg. 103–804

CONTRACTING PROBLEMS AT THE RESOLUTION TRUST CORPORATION: HOMEFED

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Contracting Problems at the Resolut...

HEARING

BEFORE THE

SUBCOMMITTEE ON REGULATION AND GOVERNMENT INFORMATION

OF THE

COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

FEBRUARY 19, 1993

Printed for the use of the Committee on Governmental Affairs

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WITNESSES

Friday, February 19, 1993

John J. Adair, Inspector General, Resolution Trust Corporation; accompanied by Steven Switzer, Deputy Inspector General, and Sharon Vander Vennet, Assistant Inspector General, Office of Audits 7

Albert V. Casey, President and Chief Executive Officer, Resolution Trust Corporation; accompanied by William H. Roelle, Senior Vice President and Chief Financial Officer, Division of Institutions, Operations, and Sales; J. Paul Ramey, Vice President, Division of Resolutions; Dennis Geer, Vice President, Division of Administration and Corporate Relations; and John Tierney, Senior Contracting Officer 30

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CONTRACTING PROBLEMS AT THE RESOLUTION TRUST CORPORATION: HOMEFED

FRIDAY, FEBRUARY 19, 1993

U.S. SENATE,
SUBCOMMITTEE ON REGULATION AND GOVERNMENT INFORMATION, COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 9:39 a.m., in room SD–342, Dirksen Senate Office Building, Hon. Joseph I. Lieberman, Chairman of the Subcommittee, presiding.

Present: Senators Lieberman, Dorgan, and Cochran.

OPENING STATEMENT OF SENATOR LIEBERMAN

Senator LIEBERMAN. Good morning, and welcome to this first hearing of this Congress of the Subcommittee on Regulation and Government Information. It is my honor to become Chairman of this Subcommittee in this session of Congress, and may I express at the outset my pleasure at the prospect of working with the ranking Republican member of this Subcommittee, my colleague and friend, Senator Thad Cochran of Mississippi.

As Chairman of the Subcommittee, I intend to examine the extent to which Government adequately uses its regulatory powers to protect the people of this country from threats to their health and safety, as well as protect them from fraud and waste in the spending of their tax dollars.

This morning—let me say before I get to this morning that Senator Glenn, who is the Chair of the full Committee, asked that I indicate for the record that he wanted to be here, but that he is in Ohio at a town meeting in Chillicothe this morning with President Clinton.

Here today, the Subcommittee returns to a topic that the full Committee has addressed twice before, and that is the waste of taxpayer money by the RTC through inadequate and sloppy contracting procedures. Unfortunately, these hearings seem to have become an annual event, and to quote the much quoted Yogi Berra once more this morning, "it is deja vu all over again."

I begin this morning with the same observation I made a year ago at the full Committee's hearing examining the RTC's contracting debacle called Operation Western Storm. At that time I said, "I am sorry that we must hold this hearing this morning because it says that no matter how much Congress pushes an agency to get its fiscal house in order, an agency can simply ignore that advice and go on its merry way." This morning's hearing underscores the

point because the events in question occurred just 2 months after our hearing on Operation Western Storm last year.

In my opinion, the story that we are going to hear this year is an outrage. By the Inspector General's estimates, RTC has wasted more than $6 million of taxpayer money. It did so by contracting to pay Price Waterhouse for photocopying files from HomeFed Federal Savings Bank at hourly rates amounting to 67 cents per page just for labor, and this only includes the bills up to the end of September.

Now, RTC's claims that these exorbitant costs were due to a Department of Justice subpoena really don't wash with me, from what I have heard. In judging these costs, we have an apples-to-apples comparison. When RTC separately contracted for copying of a subset of the HomeFed documents under the same control procedures Price Waterhouse used, it paid the successful bidder, Xerox, 11.5 cents a copy, and Xerox's bid included not just labor, but equipment and paper as well.

Now, adding insult to injury here, the Inspector General also points out that Price Waterhouse charged the RTC twice, and sometimes triple, what Price Waterhouse paid to a temporary agency for temporary employees to do work under this contract. For example, from June 1, 1992 to July 31, 1992, Price Waterhouse paid a temporary agency nearly $1.8 million for clerical employees and clerical supervisors. Price Waterhouse billed the RTC nearly $4.3 million for those same employees. That is a $2.5 million mark-up for just those two months. In a lot of ways, that is about like backing up an empty armored truck to the Federal Treasury and saying "fill 'er up."

These facts, however, as jarring as they are, trouble us because we worry that they are manifestations of a larger underlying problem here, which is RTC's ignoring of its own contracting procedures, and in that this is much like what we saw in Western Storm.

This is the contract here. It is two pages, two small pages, to cover a very big, multi-million-dollar job. I think most of us would probably write a tougher contract to hire a painter to paint our house. It is hard to see how the Price Waterhouse contract was the result of anything less than mismanagement and negligence on the part of the RTC.

In part, because of Congressional pressure and the debacle of Western Storm, throughout the spring of last year the RTC spent a lot of time updating its Contract Policies and Procedures Manual, known as CPPM. That project was led by the RTC Director of Contracting, John Tierney. RTC's senior management was briefed on the contents of the new manual and the updated manual was, in fact, issued on May 6 during the solicitation process for these HomeFed contracts. It was supposed to be effective in mid-June of last year.

Notwithstanding the fact that this manual was not effective until mid-June, some sections of RTC had earlier begun to conform their practices to its provisions. One of the new parts of the manual was a chapter on task orders which laid out in clear terms the process for soliciting, evaluating and awarding both task order agreements, or TOAs, and individual task orders placed under such agreements.

In his testimony for this hearing, Mr. Casey points out that in mid-March when RTC awarded Price Waterhouse the task order agreement under which the HomeFed task order later would be placed, the contract was awarded "strictly in accordance with the CPPM"—and that last clause is a quote—but that, I presume, refers to the draft CPPM chapter on task orders. On the other hand, the RTC program personnel who solicited, drafted, approved and signed the Price Waterhouse-HomeFed task order managed to violate a number of the new manual's provisions.

For instance, the manual states that task orders shall not exceed the overall expenditure authority obtained for the task order agreement. Rough RTC cost projections for the Price Waterhouse task order clearly exceeded the overall expenditure authority of $4 million for the overall task agreement order agreement, and there are other variances.

These provisions of the contract manual were not rocket science. They are common-sense provisions that come straight out of the GAO and IG reports, and Congressional investigations on Western Storm. I think the question has to be asked of Mr. Roelle today, who was in charge of investigating Western Storm and reporting on it to Mr. Casey, why such simple common-sense measures were not implemented in offices working under his supervision.

We have now held literally hearing after hearing after hearing on these matters. If you compare with Mr. Roelle's testimony last year with Mr. Casey's testimony this year, they are remarkably similar. Both talk of the changes that have taken place at the RTC to prevent these problems from recurring, but nonetheless the problems have recurred.

I am forced to conclude from this HomeFed case that, with all due respect, the RTC senior management has not gotten the message that Congress sent last year. The RTC is a custodian of public money, an enormous amount of public money very reluctantly and painfully raised to protect depositors in failed thrift institutions. It has an obligation to the people of the United States to spend that money wisely. It has an obligation to use all methods available to protect itself and to buy services at the best possible prices. In my opinion, it did not fulfill that obligation in this case.

PREPARED STATEMENT OF SENATOR LIEBERMAN

Good morning. I welcome everyone to the first hearing in this Congress of the Subcommittee on Regulation and Government Information. I also want to welcome to the Subcommittee our ranking minority member, Senator Thad Cochran, and our colleagues Senators Byron Dorgan and John McCain.

As chairman of this subcommittee, I intend this year to examine the extent to which government adequately uses its regulatory powers to protect the people of this country from threats to their health and safety, as well as against fraud and waste in the spending of their tax dollars. Much of this will continue the work we began last year in the Ad Hoc Subcommittee on Consumer and Environmental Affairs. I also intend to examine government's collection, management and use of information in a variety of settings, to ensure that we do not impose needless burdens on the public and that we use the information we do collect to maximum effect.

This morning, however, the Subcommittee returns to a topic that the Committee has addressed twice before, the waste of taxpayer money by the RTC through inadequate and sloppy contracting practices. Unfortunately, these hearings are becoming an annual event, and—to quote Yogi Berra—it's deja vu all over again.

I begin with exactly the same observation I made almost a year ago at the full Committee's hearing examining the RTC's contracting debacle called "Operation Western Storm." At that time I said, "I am sorry that we must hold this hearing

this morning, because it says that no matter how much Congress pushes an agency to get its fiscal house in order, an agency *can* simply ignore that advice and go on its merry way." This morning's hearing underscores that point because the events in question occurred just 2 months after our hearing on Operation Western Storm last year.

The story we will hear this morning is an absolute outrage. By the Inspector General's estimates, the RTC has wasted more than $6 million of taxpayer dollars. It did so by contracting to pay Price Waterhouse for photocopying files from HomeFed Federal Savings Bank at hourly rates amounting to 67 cents per page *just for labor.* And this only includes the bills up to the end of September. RTC's claims that these exorbitant costs were due to a Department of Justice subpoena just don't wash with me. There is an apples-to-apples comparison. When RTC separately contracted for copying a subset of these HomeFed documents under the same control procedures Price Waterhouse used, it paid the successful bidder, Xerox, 11.5 cents per copy. And Xerox's bid included not just labor, but equipment and paper, as well.

Adding insult to injury, the Inspector General also points out that Price Waterhouse charged the RTC twice and sometimes triple what Price Waterhouse paid to a temporary agency for temporary employees to do work under this contract For example, from June 1 to July 31, 1992, Price Waterhouse paid a temporary agency nearly $1.8 million for clerical employees and clerical supervisors. Price Waterhouse billed the RTC nearly $4.3 million for these same employees. The profit to Price Waterhouse for those two months was just under $2.5 million. It was like backing up an empty armored truck to the Federal treasury and saying "Fill 'er up."

These, however, were only manifestations of the larger outrage here—RTC's subversion of its own contracting processes. It is just like what we saw in Western Storm. Here again, RTC procured services of a unique type and magnitude under a Task Order Agreement that was neither suited nor intended as a vehicle for conducting this type of procurement. As in Western Storm, the RTC failed adequately to plan and delineate the services it sought to procure prior to soliciting the contract. As with Western Storm, RTC issued a task order that was a contract without limit. There was neither a fixed price nor a cap on expenditures in this contract. As in Western Storm, the individuals who approved the contract lacked the written authority to approve contracts of this amount. As in Western Storm, the individuals who signed the contract lacked the written authority to sign contracts of this size. Indeed, Mr. Ramey and Mr. Roelle had no written authority to sign contracts of any kind, in any amount, because of reforms instituted in light of Western Storm. In this case, they went ahead and did so anyway. Like Western Storm, the contracts here were executed by RTC program personnel, apparently acting without the benefit of either RTC's contracting or legal departments.

Take a look at this contract—two flimsy pages to cover a major $27 million job. You'd write a tougher contract if you hired a painter to paint your house.

It is hard to see how the Price Waterhouse contract was the result of anything less than gross negligence and mismanagement on the part of RTC senior management. In part because of congressional pressure and the debacle of Western Storm, throughout the spring of 1992 the RTC engaged in a project of updating its Contract Policies and Procedures Manual, or CPPM. This project was lead by RTC Director of Contracting, John Tierney. RTC senior management was briefed on the contents of the new manual. The updated manual was issued May 6—during the solicitation process for these HomeFed contracts—to be effective in mid-June.

It is clear, however, that notwithstanding the fact that this manual was not effective until mid-June, some parts of RTC had begun to conform practices to its provisions earlier. One of the new sections of the manual was a chapter on task orders. This chapter laid out in clear terms the process for soliciting, evaluating and awarding both task order agreements, or "TOAs", and individual task orders placed under such agreements. Mr. Casey points out that, in mid-March, when RTC awarded Price Waterhouse the Task Order Agreement under which the HomeFed Task Order later would be placed, the contract was awarded *"strictly in accordance with the CPPM."* This can only refer to the draft CPPM chapter on task orders.

On the other hand, the RTC program personnel who solicited, drafted, approved, and signed the Price Waterhouse/HomeFed task order managed to violate a number of the new manual's provisions. For example:

- The manual states "Task orders shall *not* . . . require services that are beyond the scope of the statement of work in the task order agreement."—Price Waterhouse's task order clearly went beyond the scope of the statement of work in the overall task order agreement.
- The manual states "Task orders shall *not* . . . exceed the overall expenditure authority obtained for the task order agreement."—Rough RTC cost projections

for Price Waterhouse task order clearly exceeded the overall expenditure authority of $4 million for the overall Task Order Agreement.

- The manual states "Elements of a task order proposal will normally include . . . [a] cost proposal which will either be a fixed-price offer or a time-and-materials offer *with a ceiling amount.*"—Price Waterhouse's task order had no ceiling amount.
- The manual states, "A cost reasonableness check is made by the contracting officer."—Since the contracting department was never consulted, this was never done for Price Waterhouse's task order.

These provisions of the Contract Manual were not rocket science. They are common sense provisions that come straight out of the GAO and IG reports and congressional investigations on Western Storm. The question must be asked of Mr. Roelle, who was in charge of investigating Western Storm and reporting on it to Mr. Casey, why such simple common sense measures were not implemented in offices working under his supervision.

We have now held hearing, after hearing, after hearing on these matters. If you compare Mr. Roelle's testimony last year with Mr. Casey's testimony this year, they are remarkably similar. Both tout the wonderful changes that have taken place at the RTC to prevent these problems from recurring, but these problems keep coming back.

And these changes now appear to have come with their own loopholes. Last year, for example, Mr. Roelle told us all about the warranted contracting system RTC was instituting and how every contract would have to be executed by a warranted contracting officer. What he failed to tell us then—and failed to document anywhere until just last month—was that his own Department of Resolutions had an oral waiver of the delegations of authority that in fact permitted his staff, who were not warranted contracting officers, to sign contracts. It was this unwritten exception that led to the Price Waterhouse contract.

I am forced to conclude from this HomeFed case that, with all due respect the RTC senior management has not gotten the message Congress has sent. The RTC is a custodian of public money. It has an obligation to the people of the United States to spend that money wisely. It has an obligation to use all methods available to protect itself and to buy services at the best possible prices.

RTC's managers have again broken faith with the American taxpayer. It is time for accountability and personal responsibility to come to all levels of the RTC. It is truly time for a day of reckoning and resolution at the RTC.

Senator LIEBERMAN. Senator Cochran?

OPENING STATEMENT OF SENATOR COCHRAN

Senator COCHRAN. Thank you very much, Mr. Chairman. Let me commend you for convening the hearings and for doing the work that has been done up to now to try to look into this situation.

It seems very clear from the information that has come to the attention of the Subcommittee that there were some very careless instances of monitoring of contract language and billings that are submitted to the Resolution Trust Corporation by contractors. It seems to me just from my review of the file that we have to insist on a higher degree of attention to detail by RTC management than has been the case in the past.

I am anxious to hear the testimony, though, and find out what the facts are from the point of view of those who are here to testify today. It is important for us to get to the facts. We have an obligation to reassure the American people that the money they send in in taxes is wisely used and isn't carelessly wasted, and there are some serious suspicions that RTC has not done a good enough job in managing the resources that have been made available to it for the important work that is being done.

So, Mr. Chairman, I thank you for your kind remarks in your statement. I am looking forward to working with you as Chairman

of this Subcommittee in this review and in others that will be the responsibility of this Subcommittee this year.

Thank you very much.

Senator LIEBERMAN. Thank you, Senator Cochran, and now Senator Byron Dorgan of North Dakota, whom we welcome as a member of the Subcommittee and look forward to working with.

OPENING STATEMENT OF SENATOR DORGAN

Senator DORGAN. Thank you very much. Well, let me just say how much I appreciate your holding the hearing.

I, too, am concerned about what I read and what I hear. I have been concerned with respect to the Resolution Trust Corporation on some junk bond issues, the use of the junk bond portfolio, the marketing of junk bonds, trying to get some information from them on those issues.

But I am especially interested in the issue today. It just defies common sense to read what we have read about the way taxpayers' money is used, and I guess I would like to understand how that happens and how we prevent it from happening in the future. Someone told me a couple of years ago that the RTC was buying furniture from a firm they were affiliated with and they gave them a catalog and the RTC said, we don't want that, we want to buy the top-of-the-line stuff. His point was that he wasn't sure the RTC was spending the taxpayers' money very wisely. I guess maybe at this hearing we can chip away at that and determine whether the Resolution Trust Corporation is a good steward of the taxpayers' money.

So I appreciate your holding the hearing and I am anxious to listen to the testimony.

Senator LIEBERMAN. Thank you, Senator Dorgan.

I would ask Mr. Adair and the others at the table if you would please stand to take the oath, which we are going to do in this case. If you would please raise your right hand, do you swear that the testimony that you are about to give is the truth, the whole truth and nothing but the truth, so help you God?

Mr. ADAIR. I do.

Mr. SWITZER. I do.

Ms. VANDER VENNET. I do.

Senator LIEBERMAN. Thank you. We welcome John Adair, Inspector General of the RTC, assisted by Steven Switzer and Sharon Vander Vennet, and we thank them for their extraordinary work here which is really—together with the original anonymous call and tip, if I can use that phrase—is how we found out about all this.

Mr. Adair, it is all yours. We indicated in the letter of invitation that we wanted you to try to keep your remarks to 10 minutes. I would say that if you get to 10 minutes and you have got more that you think is important to say, keep talking.

TESTIMONY OF JOHN J. ADAIR,[1] INSPECTOR GENERAL, RESOLUTION TRUST CORPORATION; ACCOMPANIED BY STEVEN SWITZER, DEPUTY INSPECTOR GENERAL, AND SHARON VANDER VENNET, ASSISTANT INSPECTOR GENERAL, OFFICE OF AUDITS

Mr. ADAIR. Thank you very much, Mr. Chairman, and I will try to summarize.

I will recap some of the information briefly, but I think it is important that even though this story has been in the Washington Post and reported on television, I think it is important that you are holding this hearing this morning because there have been some conflicting statements made in the newspapers and elsewhere about what are the costs of this copying situation. I noticed that in the Wall Street Journal yesterday Price Waterhouse was claiming it was only 5 to 8 cents, and we are going to address that this morning.

If I may begin, I would like to say that, in summary of what has happened here, the RTC has paid about $7 million, or 67 cents a page, for labor only for an accounting firm to perform what are essentially photocopying services, and as of September 30, 1992, Price Waterhouse had copied over 10 million documents. And as you mentioned, RTC has obtained similar services at a cost of about 11.5 cents a page, including the labor, the copiers and the supplies, and therefore we estimate that RTC probably has incurred excessive costs of more than $6 million through September 1992 and an undetermined amount from October 1992 to date.

Now, a portion of that $7 million paid to Price Waterhouse is for subcontracted services that are marked up by the contractor and billed to RTC at an amount in excess of what Price Waterhouse actually paid for the services. Some of these mark-ups exceeded 340 percent, but were allowable under the contract that RTC entered into with Price Waterhouse.

I want to address this issue of 67 cents a page because some people are astounded at it, some people don't believe it, and so I want to introduce today for the record a document that we have put together using the figures that Price Waterhouse submitted in its bills, and we have prepared a chart showing exactly the billing dates, the total costs involved for copying, facilitation, training, shipping, and so forth. We are only talking about the copying, the labor figures, and it is, in fact, 67 cents, and there are copies of this available at the table.

If you were to choose to include some of these other costs on this chart, including shipping or moving the documents back and forth and training procedures, and so forth, you could conceivably argue that the cost is really more like 87 cents. It is another 20 cents to do that, and if you were to include travel costs which are not included here, you could get somewhere around the neighborhood of $1 per copy, I mean, easily. This does not include Grant Thornton's provision of the photocopying machines. Grant Thornton provided the drivers for the vans to move the copies, and so forth. So the 67 cents, if anything, is a conservative number.

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[1] The prepared statement of Mr. Adair appears on page 58.

PRIC . WATERHOUSE DUE DILIGENCE COORDIN. .ION CONTRACT AT HOMEFED
DOCUMENT MANAGEMENT TASK COMPOSITION IN DOLLARS THROUGH SEPTEMBER 30, 1992

Billing Date	Total Doc. Mgt. a/	Copy	Facilitation	Procedures Training	Shipping	Compliance	Notes
5/31/92	$754,462	$565,847	$32,065	$7,356	$23,200	$12,637	b
6/15/92	$1,737,483	$1,259,675	$81,227	$18,635	$58,770	$32,013	b
6/30/92	$2,726,960	$1,914,326	$155,437	$24,543	$141,802	$114,532	
7/15/92	$2,172,275	$1,418,496	$143,370	$36,929	$128,164	$43,446	
7/30/92	$2,246,433	$1,156,913	$161,743	$53,914	$130,293	$60,654	
8/15/92	$1,135,303	$363,297	$130,560	$21,571	$71,524	$37,465	
8/31/92	$639,437	$114,459	$96,555	$19,183	$52,434	$30,693	
9/15/92	$370,424	$61,861	$55,564	$8,149	$30,004	$21,485	
9/30/92	$568,690	$139,898	$55,163	$19,904	$24,454	$9,099	
Totals	$12,351,467	$6,994,771	$911,683	$210,184	$660,645	$362,023	
Price/Copy	NA	$0.67	$0.09	$0.02	$0.06	$0.03	

NOTES:

a/ Includes other items, such as library costs, which are not directly related to photocopying activities and are not included in the other columns.

b/ PW did not submit any narrative with the 5/31/92 and 6/15/92 billings. The PW billing manager indicated that we could safely assume the copying percentage was between 70% and 75% due to the heavy level of quality assurance being performed at the time. The remaining percentage was allocated proportionately between the remaining tasks.

Source: Price Waterhouse progress billings for professional services

The Price Waterhouse Document Management function is subdivided into seven operating areas; Copy, Libraries, Compliance, Facilitation, Procedures Training, Shipping, and Microfilm. Five of these categories, which are summarized below, are directly related to the actual copying of the loan documents.

Copy - the two Major copy centers were broken in five distinct functions: (1) preparation, (2) copy, (3) reassembly, (4) quality control, and (5) quality assurance. Price Waterhouse also operated Express and Update copy centers which used the five step copy process.

Facilitation - monitored the logging system in order to maintain control over all original loan files, scheduled the movement of files into the copy process to maintain efficient production, resolved any problems concerning file location or the logging process and collected and provided copies of all logs to the Bank on a weekly basis.

Procedures Training - developed and updated procedures and job description material for each area of the document management function. This area was also responsible for overseeing the training of staff.

Shipping - coordinated all document shipping requests and documented transfer logs.

Compliance - monitored procedural or security exceptions to the document control procedures, security operations, and quality assurance operations.

Mr. ADAIR. Talking about the travel costs, which total about $2.3 million at September 1992, we noted that to perform photocopying services and document management functions that Price Waterhouse had brought in approximately 700 staff from over 60 of its offices in the United States, not 700 at any given time; probably no more than 350 at any given time, but 700 different people had worked on this project from the Price Waterhouse firm. They came from over 60 offices, including Hawaii, Alaska, Canada, Mexico, and at one point, including the subcontract employees, the temporary people, there were as many as 1,300 people at the site involved in copying.

Essentially, Price Waterhouse is being paid an average of $35 an hour for its photocopying services and has produced an average of about 51 copies per hour. As I noted, RTC is also paying for related travel costs, which were $2.3 million at September of 1992.

We really do not know how much the copying and document management has cost to the present time, and the reason for that is that while Price Waterhouse was supposed to submit bills every two weeks, the bills it has submitted that my office has seen are only for the work performed through September. The cost for Price Waterhouse's work could exceed $25 million, with a significant portion of that being for the photocopying services.

The question gets to be what recourse does RTC have with these excessive charges. From a legal standpoint, they have very little contractual recourse. You have pointed out that the contract itself was really about a page-and-a-half, with very general terms that provided no protection to the Corporation and gave the contractor carte blanche. In fairness to Price Waterhouse, RTC allowed Price Waterhouse to, in effect, charge these amounts and perform these services and, in effect, come up with these excessive charges. This week, based on our recommendations, the RTC Office of Contracts has renegotiated the rates charged by Price Waterhouse and, as we understand it, there will be a $4 million adjustment made to the bills.

Before I get into how this series of events happened, I would like to tell you how my office became involved in the audit of this contract. You alluded to the anonymous letter that we received on July 31st. A letter did come in alleging mismanagement, waste and abuse by Price Waterhouse in carrying out its contract at HomeFed. The letter alleged that an excessive number of Price Waterhouse professionals were assigned to the contract, and that 95 percent of the work was being performed by temporaries. It said that unnecessary and excessive charges were incurred for lodging, car rental and airline travel; that Price Waterhouse was over-hiring temporaries and that Price Waterhouse was not adequately tracking its billable hours.

We performed a preliminary review to determine the merits of the allegation and, based on the results of that and because of the similarity to the issues that had been raised in Western Storm, we began a full audit in September and shortly thereafter we notified RTC management of our audit.

In October, we elevated our concerns to RTC's President and Chief Executive Officer, Al Casey. On October 19, in one of my

weekly meetings with Mr. Casey, I provided him with a copy of an internal memorandum issued to me by my Assistant Inspector General for Audits, Sharon Vander Vennet. This memorandum laid out in detail our preliminary findings on the allegations and highlighted the weaknesses in the contract.

In total, on at least ten occasions between October and February, I provided written updates on the HomeFed audit to senior management. I provided Mr. Casey with information on our updated findings through detailed agendas that I prepared for our weekly meetings, as well as through copies of our correspondence with RTC's oversight board, which consists of monthly briefing documents that are distributed to the board chairman and all board members, including Mr. Casey, who is a member of the board.

Senator LIEBERMAN. Mr. Adair, I take it that from the beginning you were making it clear to Mr. Casey and the Oversight Board that there was a serious problem with this contract.

Mr. ADAIR. Yes, sir.

Senator LIEBERMAN. And it started in October; those warnings started in October?

Mr. ADAIR. Yes. Now, when it appeared that senior management was not taking action in response to our warnings, and realizing that the contract was due to expire but that the work was continuing, we wrote to the RTC Director of the Office of Contracts, John Tierney, on December 21, 1992, urging him to immediately renegotiate the contract because by this time we had uncovered another disturbing element, the excessive mark-ups that Price Waterhouse was charging RTC for its subcontracted work.

Copies of our memo to Mr. Tierney were given to the Senior Vice President and Chief Financial Officer, Mr. Roelle, who was primarily responsible for resolving HomeFed, and to Mr. Casey. But it was not until February 5 that RTC began renegotiating with Price Waterhouse.

There was a Washington Post article on February 13, 1993, and in that article an RTC official claimed that RTC was not aware of our findings until quite recently, which I found to be astounding. You subsequently wrote to me asking me to submit copies of related correspondence and meeting notes that documented the various notifications that were made to RTC management from October through February, and I have done that and provided that to you.

Senator LIEBERMAN. They are a part of the record.

Mr. ADAIR. The question gets to how did this happen. How could RTC award such a large contract with virtually no controls or protection? Essentially, RTC's senior management, in conjunction with the Office of Thrift Supervision, set a deadline to resolve HomeFed without properly planning for what lay ahead. The senior management sales-driven focus dictated the pace and the actions that followed. The deadline became RTC's goal and, as a result, RTC ignored contracting policies and procedures and internal controls and overall costs.

First of all, they neglected to involve the Office of Contracts and the Legal Division, two key components of any contracting effort. Program people were allowed to write and execute the contract and, as a result, key elements were missing.

Second, they used an inappropriate contracting vehicle very similar to the Western Storm situation. The program office issued the contract using a task order agreement that was designed for completely different services. The task order agreement that they used was for obtaining asset valuation reviews which are generally awarded on a fixed-price basis and average about $30,000 per review. The management and continuity contract awarded to Price Waterhouse dealt primarily with coordinating the activities of other contractors and with photocopying. There were no asset valuation review responsibilities assigned to Price Waterhouse, despite using this type of a vehicle for the contract. RTC's own internal documentation states that asset valuation work would be minimal, if any. Furthermore, the asset valuation review contract coordinator subsequently told us that using this task order was a stretch.

There has been some talk, and I note in the testimony that one reason they give for doing this is that they had a waiver that said—from 1990—that said, they didn't have to go through Contracting and Legal to do asset valuation reviews. We asked that the waiver be produced. It doesn't exist. There is no waiver. So they said, well, it was an oral waiver provided by the former executive director, David Cook, in 1990. We interviewed Mr. Cook. He has no recollection of issuing such a waiver, and even if he had, it would have been superseded by subsequent events requiring that such contracts go through the Office of Contracts.

Instead of using this task order, RTC should have assessed the nature of the work to be done, determined the appropriate expertise to accomplish it, and solicited firms accordingly. Essentially, we question RTC's need for an accounting firm to perform the type of tasks in the agreement. For example, were the capabilities of an accounting firm necessary to arrange for copying of files, to copy investor information, to record and distribute minutes of contractors' meetings? We think not. In our view, these tasks could have been performed by RTC personnel in conjunction with contractors skilled in document management and photocopying.

Other things that occurred were that the proper delegations of authority were not followed, but even more importantly RTC's interests were not protected in this contract. The May 13, 1992, contract signed with Price Waterhouse, signed by the Department of Resolutions, the page-and-a-half document that you referred to, contained only a brief description of the management and continuity contractor's key responsibilities, a reference to the agreed upon hourly rates, instructions to bill twice a month, and a period of performance beginning May 4 and extending through the end of 1992.

This time and materials contract contained no maximum ceiling price, no maximum on the amount of travel costs that RTC would reimburse, no time limit on period of performance, no delivery dates, no acceptance criteria, no penalties for late delivery, no terms for canceling the contract. A senior attorney in the Contracts Section of RTC's Legal Division characterized this contract as a contractor's dream.

Now, what is the bottom line? Well, clearly, millions of dollars have been wasted. A deadline was set and to meet the deadline RTC management disregarded policies and procedures that were put in place to protect RTC's and the taxpayer's interests. RTC's

contracting policies and procedures and the levels of approval outlined in the delegations of authority, which are key controls within RTC, are very clear, but they were not followed.

Now, we recognize that shortly after Price Waterhouse began its work at HomeFed that RTC learned of the Department of Justice subpoena which somewhat altered the tasks anticipated. But if you think about it, knowledge of the subpoena offered RTC management an opportunity to get this contract under control. I want to talk a little bit about the subpoena because, again, this is offered as an excuse for why the costs got to be so high, and really there is no excuse.

Price Waterhouse people at the site told us that the number of copies made was not affected by the subpoena. They were going to make the same number of copies anyway. What they said changed somewhat were the control procedures that were required by the subpoena. For example, they would have to log in the receipt of asset files from HomeFed personnel and log out for their subsequent return in order to track the location of the files.

However, Price Waterhouse had recognized the need for such controls over these documents in its proposal to RTC, its original proposal before knowledge of the subpoena. Their proposal, dated May 10, 1992, stated the actual tasks that must be performed in the area of document and file management which included establishing a system for scheduling file dissemination, tracking the location and status of the asset files, and tracking investor file review. Price Waterhouse's proposal came well before the knowledge of the subpoena.

Furthermore, common sense and other factors like financial institutions normally maintaining a high level of control over asset files because of their valuable nature makes it obvious that such procedures would be used anyway, because you are talking about documents consisting of original notes and deeds of trust and liens and negotiable instruments. So such control procedures are normally respected by outside parties.

In any event, had RTC reevaluated the circumstances upon obtaining knowledge of the subpoena, we believe they would have gained a better understanding of the tasks involved and realized that even with the subpoena, the services of approximately 700 members of an accounting firm were not necessary for the photocopying services.

I would mention one other thing here. In its follow-up study on contracting deficiencies discovered in RTC's Western Storm project, the GAO had stated that, "Overall, we believe that RTC's mind set undervalued contracting, even though RTC extensively used private sector contractors to accomplish its mission," and the latest figures I have seen is that the fees to contractors are going to be over $3 billion.

"This mind set," GAO said, "led to fundamental weaknesses in RTC's contracting system and permitted Western Storm to occur." We share that view. We have repeatedly reported that deadlines to sell take precedence over contracting and other procedures intended to ensure efficient, economical and prudent operations.

Mr. Chairman, it is unfortunate that I have to be here today to report on what was clearly an avoidable series of events. RTC has

contracting policies and procedures that, if followed, would protect the Corporation's interests. The events that I have recounted to you today really are a case study of a deadline-driven organization and what can and will take place in such an atmosphere. And if this atmosphere isn't tempered with planning and serious attention to cost containment and accountability, I expect that I will be back before you or other Congressional committees to again report on problems such as this.

Mr. Chairman, that concludes my statement. I would be pleased to answer any questions you may have.

Senator LIEBERMAN. Thank you very much, Mr. Adair. We are going to run the clock at 5 minutes for each of us as we question and we will go around as long as there are questions.

Mr. Adair, just to set the scene for those who are here and for the record, HomeFed Savings in San Diego was the largest institution that the RTC had been called upon to resolve, to use the term?

Mr. ADAIR. That is correct.

Senator LIEBERMAN. OK, so this was a big operation.

Mr. ADAIR. It was about $12 to $13 billion in assets.

Senator LIEBERMAN. Right, although is it fair to say that in many of the previous cases where RTC had been called in that there was a lot of copying to be done as well, document copying?

Mr. ADAIR. There would have to be copying in many instances, yes.

Senator LIEBERMAN. Right, so that this would not have been certainly the first occasion; maybe the largest number of copies, but they had had experience in the past doing that.

Mr. ADAIR. That is correct.

Senator LIEBERMAN. I am going to come back later to some of the things you said about why you think this happened and the general nature of the rush, but I want to get at some of the issues in dispute here. The 67 cents a page obviously jumps out at all of us because, you know, we know that if we go into one of the big copying centers we can get a page copied for as little as 2 cents, maybe a nickel; at the outside, a dime, and that is a lot.

I gather, and this is to pick up on something you have said in your testimony, that one of the explanations that the folks at the RTC offer is that this was not just simple copying. In other words, it wasn't just taking a piece of paper, putting it in a machine and getting it copied, but that particularly as a result of the Department of Justice subpoena—and this happened because the Justice Department was investigating and possibly considering indictments and the rest, a separate matter from what RTC was doing, subpoenaed the documents and asked for copies of all the documents—that that subpoena required an extra series of steps that in some measure may justify, if not the 67 cents, at least more than I would have to pay if I went into Kinko. How do you respond to that?

Mr. ADAIR. Well, I think the clearest and simplest response to this is to look at what happened with a number of HomeFed files that were inadvertently shipped to Texas by mistake and ended up being copied in Texas using exactly the same procedures that Price Waterhouse was following. What was the cost of that? I mean, I think that——

Senator LIEBERMAN. Let me interrupt you. That is very important. The copies that were inadvertently shipped to Texas, which I gather were then copied by—the documents were then copied by Xerox?

Mr. ADAIR. The documents were copied by, as it turns out, Xerox.

Senator LIEBERMAN. Yes. That is the 11.5 cents.

Mr. ADAIR. That is the 11.5 cents.

Senator LIEBERMAN. And they were copied pursuant to the requests surrounding the Department of Justice subpoena?

Mr. ADAIR. Yes. The provisions of the subpoena were followed and, in fact, Price Waterhouse's documented procedures that Price Waterhouse was following at 67 cents a copy were exactly those that Xerox was following at 11.5 cents a copy.

Senator LIEBERMAN. So it is a real apples-to-apples comparison?

Mr. ADAIR. Yes, it is a direct comparison, the same type of files from HomeFed and—I should mention this. Let us be fair about this.

Senator LIEBERMAN. OK.

Mr. ADAIR. We talked to Xerox in Texas and we said tell us about this situation, and they said that they had only had a chance to look at a couple of boxes of the documents when they bid 11.5 cents and that the job actually turned out to be a little more difficult than they thought. You are talking about removing staples, paper clips and what have you, removing documents from bindings, and if they had it to do all over again, they would have bid 17 cents.

And we asked them what would be the bid for 10 million documents and they said, again, 17 cents. Their bids on other copying ranged from 10 to 19 cents. Nineteen cents is the most they ever bid for the toughest copying job, and for this they would have bid 17 cents a copy. That is including following all the Price Waterhouse-developed procedures to take the subpoena into effect, and I believe it also includes the supplies. They provided the paper, so it goes beyond just the labor that we are talking about for 67 cents for Price Waterhouse.

Senator LIEBERMAN. Another way to go at this, just to deal with the 67 cents and whether it was reasonable or not, is the comparison that you have given us between what was paid by Price Waterhouse for temporary employees who were doing the work and then what they billed the RTC for. I take it that temporary employees were used for the copying.

Mr. ADAIR. Yes.

Senator LIEBERMAN. OK, so just go over that again so we have that on the record because that is another way, in gross, to come at this and say that this was an outrageous, unreasonable charge.

Mr. ADAIR. Well, Price Waterhouse bid certain rates and among those rates were $17 for clerical, $34 for para-professionals, $59 for staff, $79 for seniors, $134 for managers, $160 for senior managers and partners. But they were paying, I believe, about—they were hiring temporaries from, I believe Remedy was the name of the organization.

Senator LIEBERMAN. Right.

Mr. ADAIR. And these people, we are told, were being paid close to minimum wage to conduct the copying, and then the bills that

were submitted by the copying company to RTC were doubled and tripled in many instances and then submitted directly to RTC to be paid. So that is where we get into the very excessive profits being made by Price Waterhouse on this.

Senator LIEBERMAN. And, again, that is the 67 cents per copy, but looked at in a different way, which is what was Price Waterhouse paying for that service and then what they were charging the Government.

Mr. ADAIR. That is right.

Senator LIEBERMAN. And there is no explanation for that except that the contract allowed it.

Mr. ADAIR. That is correct. There is no prohibition against that.

Senator LIEBERMAN. I mean, it is an enormous mark-up for a very simple service.

Mr. ADAIR. The RTC has something comparable in its asset management and disposition contracts. They call them SAMDA contracts for managing and disposing of assets. A contractor that is responsible for managing assets and selling the assets quite often hire subcontractors to do maintenance work and whatever else needs to be done and those costs are passed through without being increased, or doubled and tripled by the SAMDA contractor, directly through to RTC, and that is the kind of thing that could very well have been done here.

Senator LIEBERMAN. Well, my time is up. With the consent of my colleagues, let me just ask you for a factual explanation here. One of the charts we have got shows the—it is right behind me here—shows the breakdown of Price Waterhouse charges per copy, and there in the second bar we see the 67 cents per copy. To the right of that it says Price Waterhouse document management, 51 cents per copy, coming to a total of $1.19 a copy. What is the document management?

Mr. ADAIR. All right. I am going to ask my Assistant Inspector General for Audits, Sharon Vander Vennet, to comment on that.

Senator LIEBERMAN. Fine.

Ms. VANDER VENNET. The document management category included categories other than just copying. It included the four additional categories that we talked about on this chart, which I believe you have copies of, the transportation of the files back and forth. They had a compliance section set up to make sure that the procedures were being followed. They had a procedures and training section set up that developed the procedures and trained people, and they had what they called facilitation. Those were the people that made sure that the logging and tracking was done. They also had to set up libraries. These were rooms that the investors used to go in and review the files they were looking at—all of those other costs are also included under document management.

Senator LIEBERMAN. Were any of those required by the Department of Justice subpoena?

Ms. VANDER VENNET. The compliance was set up for the subpoena.

Senator LIEBERMAN. Right.

Ms. VANDER VENNET. OK, and the procedures and training would be the two that would be most directly related to the subpoena.

Senator LIEBERMAN. OK. But, again, I just want to point out that those charges are outside the 67 cents per copy that we have focused on.

Senator Cochran?

Senator COCHRAN. Thank you, Mr. Chairman. As I understand it, the procurement rules that apply in this situation are different from the normal procurement of services by other Federal agencies. Is that correct? Don't you have to follow under normal situations a manual on procurement practices?

Mr. ADAIR. Yes, Senator. The RTC, you have to remember, is an organization that was created with the goal of going out of business in 1996, and they are exempt from certain contracting provisions, and probably correctly so. We have seen the General Accounting Office testify in the past. When asked if RTC should be placed under the same types of contracting controls as the rest of the Government, GAO said no because it would really hamstring the organization and just shouldn't be done. But I think what we have seen here is they have gone too far in some instances to the point where there are no controls.

Senator COCHRAN. Are there any regulations or laws that apply to the procurement of services by RTC?

Mr. ADAIR. Well, the FIRREA legislation would set forth whatever controls there would be—the financial institutions act that created the RTC back in 1989.

Senator COCHRAN. Yes. Well, you know, I think we need to probably consider whether your findings amount to an indication of simple negligence in monitoring contracts, reviewing the details of billings, or whether, in your view, we are talking here about some intentional violations of Government regulations or statutes. How would you characterize your findings?

Mr. ADAIR. Well, I think I have tried to capture them in the statement. This is a condition that we see repeated over and over within the RTC. The RTC—I don't want to lose my credibility here by praising them, but they have some excellent people that work very, very hard, and they are very much goal-driven. If you set a goal before them, they do everything they can to achieve it, even if that means going around the rules and breaking the rules and, in the end, costing the taxpayer a lot of money. And I think it is that mind set that causes problems for them in a lot of their contract procurements and in a lot of their other endeavors.

Senator COCHRAN. In the course of your investigation, did you make an effort to get the RTC officials' side of the story and is that included in your report?

Mr. ADAIR. Yes, we certainly did. We have done——

Senator COCHRAN. Who did you talk with? What high-level official or officials at RTC did you personally talk with?

Mr. ADAIR. Well, of course, I meet with the President and CEO. We have a regularly scheduled weekly meeting every Monday afternoon and I had advised him of this problem on a number of occasions, and I know we have interviewed and discussed this with various levels of RTC management. At the senior vice president level, we have interviewed Mr. Roelle, the Senior Vice President and Chief Financial Officer, and I think we have provided a series

of people interviewed for the record. I mean, it is quite a few people that we have talked to about this.

Senator COCHRAN. Are the facts or the information that you gathered from RTC officials included in your report, or did you find that you obtained the information that you submitted to the Committee and to others to be based on information that you gained without the benefit of talking to RTC officials?

Mr. ADAIR. We certainly talked extensively to RTC officials throughout the country about this situation and we have extensive working papers. Our California office joined us this week. The representatives from our office brought in voluminous working papers consisting mostly of documents and interviews which I found to be quite interesting, some of them concerning the quality of the work that was done under this contract which has its own separate set of problems. So I would say extensive work has been done on this even though our audit is not yet complete.

Senator COCHRAN. Let me ask you for your judgment on how we should try to deal with the problem in terms of establishing some different guidelines or other rules or procedures. What would your suggestion be in connection with trying to keep this from happening, keeping in mind that there are probably going to be billions of dollars of additional funds requested of Congress to support the continued activities of RTC?

Some estimate this could be as high as $40 billion of additional funding that may be required by RTC to complete its work. If we are going to see the outlay of that kind of money, we need to be sure that we tighten up the procedures, or have some understanding with RTC on how it is going to conduct business in the future to prevent this kind of thing from happening again. What is your recommendation on that subject?

Mr. ADAIR. I believe that the contracting policies and procedures manual that has been created by the RTC—if it was followed and if the Contracts Office and the Legal Division were involved in the awarding of contracts, you wouldn't have this kind of situation. RTC has subsequently moved this specific contract we are talking about under the contracting office, so it is now being handled more properly, a little bit late, unfortunately.

But if we could just avoid the kinds of waivers and things they talk about, and freelance contracting that goes on without perhaps the knowledge and the approval of the Office of Contracts and the Legal Division, that is what is really causing the problems. This is such a huge organization in terms of the numbers of contracts and the number of contractors that these things are going on—I am sure there are other contracts like this that we just haven't come upon. And, of course, as a result of publicity in the Washington Post last week, we are starting to get more allegations to our hot line about other accounting firms.

I want to say this. This really isn't about Price Waterhouse. This could have been any other accounting firm, Mr. Chairman, and I am sure that we are going to come up with the same kind of thing with other accounting firms that we look at. But it is more about what controls RTC should put in its contracts because if the controls were there and they went through the appropriate mecha-

nisms and they decided on which companies should be submitting proposals to them, you wouldn't have this sort of situation.

Senator COCHRAN. Thank you, Mr. Chairman.

Senator LIEBERMAN. Thank you, Senator Cochran.

Senator Dorgan?

Senator DORGAN. Thank you, Mr. Chairman. Mr. Adair, thank you for your testimony. You indicated that on October 18 you had a meeting with Mr. Casey and others alerting them to these problems. Mr. Casey, in his testimony, is saying upon receiving written notice in late December, immediate steps were taken, and so on. Is that a distinction between written notice and a meeting?

Mr. ADAIR. Well, I consider the October 18 meeting to be written notice because my standard operating procedure is that at every Monday meeting I prepare an agenda—I type it myself—that covers the important audits and investigations that are going on at that time. I type the agenda; I make two copies, one for myself, one that I give to Mr. Casey and leave with him because my understanding is that he would then use that material when he meets with his senior vice presidents and others to say here is a problem I want you to take care of. So I consider that to be written notification.

And I should mention that on October 19, in the agenda that I provided there is an attachment and it is the memorandum, the detailed memorandum that Sharon Vander Vennet had prepared on the subject. So that is also written notification in that sense.

Senator DORGAN. October 18th?

Mr. ADAIR. That was an October 16th memo that I provided October 19th.

Senator DORGAN. You indicate that the procedures were not followed. Contracting Office attorneys were not consulted with respect to this contract. Can you amplify on that again, and if procedures were not followed, was the contract signed by someone authorized to sign it? In other words, is this a case where the RTC can now claim this was not an authorized contract?

Mr. ADAIR. Well, the person that signed it really didn't have the authority to sign it, as I understand it.

Senator DORGAN. Are you talking about the legal authority?

Mr. ADAIR. Pardon me?

Senator DORGAN. Are you talking about the——

Mr. ADAIR. He didn't have the delegated authority within the organization.

Senator DORGAN. What about the legal authority? Did that person have the legal authority to commit the RTC to the contract, in your judgment? I guess that is a legal question. I am asking an auditor a legal question, but the reason I ask the question is the RTC says they don't have the capability of renegotiating. It seems to me if the contract is between someone on the RTC side that didn't have the legal authority to move the contract forward, then it seems to me there is room for renegotiation.

Mr. ADAIR. I think once you go into a contract and the contractor goes into it in good faith and comes up with its performance, and has been paid, I think you have basically a real contract, whether they had authority or not to sign it.

Senator DORGAN. Mr. Adair, I have taken notes about this hearing. I think this is sloppy management, terrible management. Mr. Casey is going to testify that this is just fine, this is standard stuff. This is an embarrassment, in my judgment, and I am going to talk about that embarrassment with the people who run the RTC.

But I am also astounded by your last comment that you made—this is not about Price Waterhouse. How on earth can you say this is not about Price Waterhouse? The Federal defense acquisition regulations indicate that a reasonable mark-up, given the low level of risk on a contract like this, would be 2 percent. We have a firm in the country that everybody knows about, a big firm, that marks it up 345 percent, and you admit that the charges are excessive.

Now, the fact that the RTC makes big mistakes is an embarrassment, in my judgment. But does that justify a corporation promoting excessive charges and using these kinds of mark-ups? Shouldn't we also be saying to the American public in this kind of discussion that we will not countenance that kind of behavior by American corporations—that it is not what we expect and it is not what the American taxpayers deserve? So why is this not about Price Waterhouse as well?

Mr. ADAIR. Well, what I think I am saying here is that any other CPA firm under the same circumstances probably would have gone forward with accepting a 1½-page contract and performing the work that was required and submitting bills with their high rates that they charge. They very simply took full advantage of what RTC allowed them to do.

Senator DORGAN. I heard you say that, and shame on them if they would have done that as well. I come from a town of 400 people. There aren't many business places on the Main Street, but the businesses wouldn't do that to each other.

I understand this hearing is about the RTC. It is about, in my judgment, sloppy management, ineffective management, embarrassing results, and taking the taxpayers to the cleaners. That is what this hearing is about. I understand and accept that, and I am going to ask tough questions of the RTC. But I also believe this is about Price Waterhouse and all other firms in this country that take advantage of the government, promote excessive charges and are unfair in their business practices.

Now, I would have liked to have seen Price Waterhouse answer some questions today as well. I accept the notion of what this hearing is about, but I just say that there are two parties to this transaction. One was supposed to represent the taxpayer and demonstrated a complete incapability of doing that, to our embarrassment and, in my judgment, to the anger of the American people, having lost a lot of money on this contract. The second party is the corporation or partnership or whatever it is that seems to have taken advantage in an unethical way, in my judgment, of the American taxpayer.

So let me just ask another question. I wanted to make that point about your last statement that this is not about Price Waterhouse. At least to this Senator, this is also about Price Waterhouse. You talk about the October 18th meeting. Mr. Casey says it was December, and then he says that the RTC began to take action in January. I am going to ask him about that. The implication from Mr.

Casey is that you told them and they took action. But you indicated you told them October 18th and they didn't start negotiations until February.

Mr. ADAIR. Yes.

Senator DORGAN. That is a radically different sequence of events. Can you reconcile that?

Mr. ADAIR. I really can't reconcile that. I know that when we checked with the Office of Contracts in the first part of February that they had not as yet taken action on Sharon Vander Vennet's December 21st memorandum advising them and urging them to renegotiate.

Senator DORGAN. Two other quick points. Mr. Casey is going to say to us—in fact, he says that comparing copying of this type to normal copying is like comparing the cost of a commercial airline ticket to the price of a space shuttle flight. I think you have addressed that. Sixty-seven cents a copy doesn't relate at all to a reasonable cost for this kind of a contract, is that correct?

Mr. ADAIR. It does not.

Senator DORGAN. And Mr. Casey is also going to tell us that the behavior of the Inspector General has been unprofessional and that the recent sensationalism and comments by members of the IG's office in the press have been totally unprofessional. Would you please respond to that?

Mr. ADAIR. Well, I can only say that we have carried out our work in as most professional manner we can and I am quite proud of our organization and the people that we have in it. We have 300 people throughout the country. Last year, as our semiannual report points out, we saved the taxpayer over $4 billion in real money, and if you want to verify that, please ask Senator Mikulski, who oversees my office's appropriation. She said to me at the hearing on my appropriation that the money that we saved was enough to fund the National Science Foundation and other projects. So I think we have done a very professional job throughout the three years of our existence and I would stand by my record.

Senator DORGAN. Well, Mr. Adair, I have some other questions as well, but I would just end my questioning by saying, in your role as Inspector General, even when you find slothful work on the part of the Federal side, do not excuse 345-percent mark-ups that subject the American taxpayer to price-gouging.

Mr. ADAIR. I want to clarify that. I am not excusing at all what Price Waterhouse did. I am merely saying that this is also going on with other firms and it could just as easily been another firm here today.

Senator DORGAN. Then, Mr. Adair, let us find out who those other firms are and give them a little publicity as well.

Mr. ADAIR. We will do that.

Senator DORGAN. And maybe we can convince business leaders in this country to price reasonably when they are dealing with the Federal Government.

Senator LIEBERMAN. Thank you, Senator Dorgan. Of course, you make a good point. Our role is to review the work of RTC as a public agency and to see why a contract was entered into that essentially gave carte blanche to Price Waterhouse to charge whatever it would, or at least in limiting the per-function charge but not put-

ting any outside cap on the cost of the contract. In some sense, it almost urged them to just do as many functions as they could do to run it up.

Mr. ADAIR. Yes.

Senator LIEBERMAN. I agree with my colleague that you would hope that particularly when you are dealing with taxpayer money, that a private entity would not take maximum advantage and exploit a situation, which they did, and that is obviously regrettable. But our concern clearly is, as you have pointed out, why RTC negotiated a contract to let this happen, and let me talk about that a little bit.

I gather, stepping back for the details, that part of what you see happened here was a tremendous sense of time pressure, that they were going to try to move this to keep HomeFed Savings out of conservatorship and see if they could resolve it by the end of September, I believe was the date.

Mr. ADAIR. Right.

Senator LIEBERMAN. And as a result, everybody was under pressure and they skipped steps. Is that——

Mr. ADAIR. I think that is essentially correct that they felt they had to short-cut the procedures to get things done.

Senator LIEBERMAN. Right, and yet I want to ask whether you think there were simple steps that the RTC could have taken even if it procured these services that would have minimized RTC's risk, and also minimized the open door for exploitation by the party on the other side of the contract.

Mr. ADAIR. I think there were some very simple steps that could have probably been done in a day or less simply by including a number of contractual clauses that would have protected the Corporation—a maximum ceiling on the fees and travel costs, productivity levels and scheduled time frames. They could have required a level of—or independently confirmed a level of quality being produced, and required the contractor to correct the deficiencies at its own costs. Simple things like that written into the contract would have made a huge difference.

Senator LIEBERMAN. Right. Not very complicated?

Mr. ADAIR. No.

Senator LIEBERMAN. Shouldn't have taken a long time?

Mr. ADAIR. Less than a day, I would think.

Senator LIEBERMAN. Right, and I like what you suggested here that even if the per-function bid that Price Waterhouse made was excessive—$39 an hour for para-professionals to do the copying—nonetheless, if you put a cap on the total cost of the contract, then they would have been under pressure to economize.

Mr. ADAIR. Yes.

Senator LIEBERMAN. Why wasn't that done? I mean, the folks at RTC are not amateurs. The people in these positions have some experience and they are handling a lot of responsibility. Even under the rush scenario that you describe, why didn't they just add a cap, an upper limit, a ceiling on costs on the contract?

Mr. ADAIR. I really don't know. I don't know if Sharon Vander Vennet would like to comment based on interviews she has read. Do you have a sense of that?

Ms. VANDER VENNET. In a way, the answer is we don't know.

Senator LIEBERMAN. Yes.

Ms. VANDER VENNET. I think part of it had to do with they really had very little idea of what was involved and how much it should have cost, but they still could have put a limit in there that once they reached that limit, then they would come back and look at it again. I recognize that they had no idea at this point that it was going to cost $23 or $25 million. That doesn't preclude them from putting some sort of limit in there that at least at that point they go back and look at it again.

Senator LIEBERMAN. Right. I gather from what I have read here on all sides that the contract obviously got much bigger than the folks at RTC thought it was going to get. At the outset, how much, by what they have told you, did they think it would cost?

Mr. ADAIR. Four to five million dollars.

Senator LIEBERMAN. Four to five million. So why not put that in the contract, right?

Mr. ADAIR. Why not, indeed.

Senator LIEBERMAN. Right, OK. We have got on the easel over here an organizational chart for the Price Waterhouse personnel at HomeFed. Unless you have got real laser-beam eyes, you are not going to do any better than I am at seeing the details of it, but the areas highlighted in what looks to me like orange there are the personnel identified by your staff as being those involved in copying and document management. Of course, the entire bottom half of that chart is for copying. Do you think that was necessary?

Mr. ADAIR. I really do not. I think the point you made a few moments ago that if you have no controls and basically you are inviting a company to add as many people to a project as it can and to take as much time as it can to do the work and extend the work because all that means more money in the pocket of the contractor—that is what we are trying to show here. This thing got bigger and bigger because there was nothing but profit to it. It is time and materials and the more time that you can spend, the more money you make.

Senator DORGAN. Would you yield on that point?

Senator LIEBERMAN. I sure would.

Senator DORGAN. I am trying to understand on a contract like this, however, there were 17 senior partners or 17—how on earth could one allocate reasonably 17 high-priced senior folks to a copying contract?

Mr. ADAIR. I have no answer for that.

Senator DORGAN. Well, I suppose it is because the contract didn't prohibit them.

Senator LIEBERMAN. That is correct. I mean, again, just to go over the bid that was the—the three-page bid that became part of the page-and-a-half contract proposed to add a—they have there a standard labor category, $160 an hour for senior management, et cetera. And then they propose to add a para-professional staff classification at a rate of $39 per hour, and a lot of those were the people who were doing the copying, is that correct, Ms. Vander Vennet?

Ms. VANDER VENNET. Yes.

Senator LIEBERMAN. And am I also correct, just to take these numbers a somewhat different way, that Price Waterhouse was

able to obtain those personnel at between $10 and $15 an hour from temporary services?

Ms. VANDER VENNET. For the most part, yes.

Senator LIEBERMAN. OK, so again that is part of the dramatic mark-up without explanation, no additional cause.

A final series of questions for you, if I might. Obviously troubling here, and we know that there was a lot going on, is the lack of a response to your warnings beginning in October. What was the nature of the response? We know there was no action, but what happened when you began to notify Mr. Casey and other senior personnel at your regular meetings ten times, I think, by your recollection?

Mr. ADAIR. The only action that I can point to at this time—I really don't know. I think you have to ask Mr. Casey what he said to his senior vice presidents, what he directed. We know that the person involved with the contract was transferred over under the Office of Contracts subsequently, but other than that I am hard-pressed to say what action might have been taken.

I really believe that perhaps it was not a great surprise to him because when I spoke to the Senior Vice President and Chief Financial Officer, Mr. Bill Roelle, about this, he had said he had been very angered at the first series of billings received from Price Waterhouse. I think that was in the summer, in the June–July time frame, the first million dollar's worth of bills.

Senator LIEBERMAN. Right.

Mr. ADAIR. So he may have surfaced this already to Mr. Casey. I think you have to ask those gentlemen at the subsequent part of this hearing as to whether this was a surprise to them, and maybe Mr. Casey was already aware of it and felt that this subpoena was causing the extra costs, which we find really is not the case.

Senator LIEBERMAN. So from your recollection, Mr. Roelle knew about this some time during the summer, or at least had some initial concerns about billing under the contract?

Mr. ADAIR. Yes.

Senator LIEBERMAN. And to the best of your knowledge, do you think that you were the first person to notify Mr. Casey of these concerns, or did he indicate an awareness when you first discussed this in October?

Mr. ADAIR. I don't really know if I was the first person to notify him.

Senator LIEBERMAN. Mr. Adair, what was the general nature of the reaction? In other words, in your normal weekly meetings with Mr. Casey, do you go over a series of concerns you have and basically he will say, OK, we will take a look at that, or what happens?

Mr. ADAIR. I think he—just as anybody would, I think he expressed surprise at the costs of this, and my tacit understanding, I suppose, was that some action would be taken on it. You know, it could range from at least checking with his people to see what the story was and whether these costs were unavoidable or action could be taken or the contract stopped or modified, or whatever.

Senator LIEBERMAN. But this went on, by your recollection, ten times. What happened when you got to the fourth and fifth and sixth time that you raised it? In other words, were you giving him

new information every time or were you basically saying, what is going on here?

Mr. ADAIR. Yes, because things would change as the audit progressed. In the beginning, I was providing some raw numbers and then, of course, as time passes additional information comes in and the numbers changed up and down a little bit, but they were always outrageous. And as time passed and we didn't see a lot happening, we really decided to take the matter into our own hands as best we could and bypass top management and go directly to the Office of Contracts with the memorandum from Sharon Vander Vennet in December. So we wrote to John Tierney at Contracts and said you need to renegotiate this contract, something has to be done, and that is basically the action we took at that time.

Senator LIEBERMAN. And that drew a response, or did it?

Mr. ADAIR. Well, ultimately, yes.

Senator LIEBERMAN. In February?

Mr. ADAIR. Yes.

Senator LIEBERMAN. OK, thank you.

Senator Cochran?

Senator COCHRAN. It is interesting to me, Mr. Adair, when I asked you a moment ago about your contacts with RTC officials and whether you brought to their attention your concerns and information, you said you did meet often with them. I now have been handed a document that has been prepared by the RTC Office of Inspector General dated February 17, 1993, that has a listing of, I presume, all of the meetings that you have records of having with Mr. Casey and others at the RTC. I presume the Chairman will put this in the record and this will be a part of the record.[1]

Senator LIEBERMAN. I will.

Senator COCHRAN. One thing that is interesting to me, though, is, looking ahead, I read the statement that had been given to the Committee by Mr. Casey and in it appears this sentence on page 6. I am going to read it to you and ask your reaction to it. "Further, RTC does not question PW's entitlement to the fees charged for the services it rendered, nor as a matter of policy does RTC question PW's entitlement to charge contractual category rates for purchased labor." What is your reaction to that statement?

Mr. ADAIR. Well, I think the problem is that you are hiring an accounting firm to do photocopying and you are willing to pay the higher rates than an accounting firm would charge for audits and other higher-level type operations. I mean, if you are willing to hire an accounting firm and pay the higher rates to do something that could be done much less expensively, I just don't understand that.

Senator COCHRAN. What about the suggestion that I see in Mr. Casey's statement and attachments to that that describe the subpoena that had been filed which they had to comply with in terms of turning over documents to the U.S. Attorney in connection with, I guess, a grand jury investigation?

Apparently, according to the information that is before us here, they had to have somebody who was knowledgeable about the business operation to review all the documents. Part of the contract with Price Waterhouse was that they would furnish somebody who

[1] See page 262.

would read them, understand what they were, whether or not they were subject to this subpoena, and keep them in order. Is that a reasonable explanation for why higher costs would have to be charged?

Mr. ADAIR. I don't think so at all, and I think we have covered this pretty extensively that the same type of procedures were in effect in Texas by Xerox at 11.5 cents, and it is just not a good excuse.

Senator COCHRAN. OK. That is all.

Senator LIEBERMAN. Senator Dorgan?

Senator DORGAN. Mr. Adair, on October 18th when you met with Mr. Casey, the head of the RTC, did you tell him at that point that, you know, you have got a contract here where Price Waterhouse is charging you 67 cents a copy to make copies of things, effectively? Is that the kind of information you presented him with?

Mr. ADAIR. I presented him with a one-page bullet-form document——

Senator DORGAN. But my point is——

Mr. ADAIR [continuing]. With that type of information. I don't know that it was 67 cents, but it talked about the millions of dollars that were being spent on photocopying under that contract.

Senator DORGAN. It was the kind of information that would alert somebody to say, wait a second, this is nuts?

Mr. ADAIR. Yes.

Senator DORGAN. You don't pay 67 cents to copy papers; let us stop this today?

Mr. ADAIR. Yes.

Senator DORGAN. You characterized the problem in those kinds of terms?

Mr. ADAIR. Very clear.

Senator DORGAN. And what was the response of Mr. Casey?

Mr. ADAIR. Well, as events unfold, I guess, not much was done. His response was that this appeared to be shocking to him, as you would expect. I don't think anybody could hear that and not be shocked by it. But as time went on, not much was happening and, as I say, we decided to take matters into our own hands and go to the Office of Contracts to see if we could get this renegotiated.

Senator DORGAN. And you then wrote to Mr. Tierney?

Mr. ADAIR. Yes.

Senator DORGAN. Is that an unusual thing? I mean, you say you bypassed top management at that point because you had already alerted them.

Mr. ADAIR. That is right.

Senator DORGAN. They didn't take action, so you took an unusual step and went to the contracting people and said, we have got this problem, this is crazy, the taxpayer is spending 67 cents a copy through this contract?

Mr. ADAIR. Yes, sir.

Senator DORGAN. And Mr. Tierney—did he respond to you?

Mr. ADAIR. Not in writing, but he did spearhead the negotiations with Price Waterhouse.

Senator DORGAN. And so the renegotiations began February 5th. What was the result of those renegotiations? Now, how much were we paying for copying paper?

Mr. ADAIR. I understand that an adjustment has been made on billings that have not yet been submitted to RTC to be paid and that RTC will be paying $4 million less.

Senator DORGAN. And so how much per page will be paying now? If 67 cents was embarrassing and of great concern to you and the RTC, or at least sufficient to somebody in the RTC to take action at some point, 67 cents is renegotiated to what?

Mr. ADAIR. Well, I don't think they quite did it that way.

Senator DORGAN. I understand that, but somebody is going to do it that way at the end of the process. What do you think it is going to turn out to be? You say that——

Mr. ADAIR. I think we would probably have to answer that for the record. We have just now received a copy of the document.

INSERT FOR THE RECORD

Using the 20 percent discount RTC negotiated with Price Waterhouse (after the first $5 million in billings), we calculated that the cost per copy through September 30, 1992, would be 59 cents.

In total, before the negotiated discount, Price Waterhouse billed RTC $6,994,771 for 10,441,134 copies (through September 30, 1992). Of that amount, $2,534,741 is not subject to the 20 percent discount because it is part of the first $5 million Price Waterhouse billed RTC. The remaining amount ($4,460,030) would be subject to the discount, bringing it down to $3,568,024. Therefore, total copying charges through September 30, 1992, after factoring the 20 percent discount would be $6,102,765 ($2,534,741 plus $3,568,024). Dividing that amount by 10,411,134, the number of copies made, gives a per copy cost of 59 cents.

Senator DORGAN. But you say that it was done by mistake by a firm in Texas for 11 cents. They subsequently say that had they had more information, with the restrictions, they would have wanted to do it for 17 cents a copy. That is 50 cents a copy less than we were paying.

Mr. ADAIR. Yes.

Senator DORGAN. Now, it was renegotiated. Will we see that renegotiation bring the cost down to 17 cents or not, and if not, why not?

Mr. ADAIR. No, it won't be 17. A rough calculation off the top of my head would be in the 30- to 40-cent range. It would be reduced by 30 to 40 cents if it is $4 million on 10 million copies.

Senator DORGAN. Why would it not be reduced immediately to a competitive area? If not, why would the contract not be suspended? Am I missing something here?

Mr. ADAIR. What you are missing is that RTC has no legal right to force Price Waterhouse to provide any money. They have no leg to stand on legally and RTC, I think, feels fortunate to be getting any money back because legally Price Waterhouse can give them nothing.

Senator DORGAN. Well, my guess is the RTC is the Federal Government, and my guess is that Price Waterhouse as a company would certainly want to protect their future interests with respect to contracting with the Federal Government. I would think the Federal Government has enormous leverage with a company like Price Waterhouse, so I am trying to understand.

If there was, in fact, was a renegotiation, will we find out that the renegotiation brought this down to the point where we are paying 17 cents a copy, which seems very high to me, but nonetheless which you say is competitive? Or will we find out this was renegoti-

ated so that we are still, in effect, paying much higher costs for a simple process of copying than we should pay? If we are left in a position of still paying higher costs, the question is why. Why would the taxpayers not expect this to be renegotiated back to a competitive level?

Mr. ADAIR. That is a good question and I think——

Senator DORGAN. What do you expect to find when you submit the information to us?

Mr. ADAIR. I expect that it won't be—it will not have been renegotiated to 11.5 cents.

Senator DORGAN. Or 17 cents?

Mr. ADAIR. Or 17.

Senator DORGAN. And it will not because you think that Price Waterhouse contractually has the RTC over a barrel?

Mr. ADAIR. Yes.

Senator DORGAN. And the RTC wouldn't have the moxey to use the leverage it has as a Federal agency?

Mr. ADAIR. Well, I think they have used as much pressure as they possibly could exert here.

Senator DORGAN. I see. This is sort of probably the tip of the iceberg of a lot of things that go on in an agency this big that is trying to do a job this big in a short time. But my hope is that, when one finds circumstances like this that so exceed the norm and anger the taxpayers because they know it is spending money that just is excessive, there would be a way to say: Wait, let us stop this right now. We will stop it immediately and we will see if there are contractual damages. We will see if somebody wants to press contractual damages on what clearly are excessive charges.

What I am hearing from you is that last October you sent information to the head of the RTC last December and last February negotiations began. There is now a new contract. What I am hearing from you is that this new contract probably still doesn't have the American taxpayers paying reasonable copy charges.

Mr. ADAIR. Part of the problem, I guess, in reacting to what I said to top management to RTC was there was no cancellation provision in the contract. So I think initially they thought they were perhaps trapped into this, although now, with the publicity in the Washington Post and what has transpired, Price Waterhouse obviously is more willing to negotiate with the RTC on this. But, still, I think we are paying an excessive amount because Xerox—let us face it, they would be making a profit at 17 cents, so anything beyond that is kind of reasonable.

Senator DORGAN. Yes, but don't you think—I mean, you say there is no cancellation provision in the contract. I am talking about people who run an agency and spend the taxpayers' money. The Federal guidelines say that in this contract, where there is no risk, 2 percent would be a reasonable mark-up and Price Waterhouse charged a 345-percent mark-up. Don't you think Price Waterhouse would reasonably say well, wait a second, there may technically be no cancellation provision in the contract, but let us see if we want to sue the RTC and discuss this in the National press?

I mean, I am just wondering why there is no aggressiveness on the part of the RTC. I mean, what I sense here from your discus-

sion is there is no feeling inside the people in the RTC to say let us do this right. Let us fix this problem. Let us put the taxpayers in a situation where they are at least getting their money's worth. Is that the problem you were sensing from October to February?

Mr. ADAIR. I think there is a great sense of urgency to go out of business at the RTC, with quite less consideration about what it will cost.

Senator DORGAN. They are going to go out of business much quicker than they think if we keep hearing these kinds of things. Well, I appreciate your testimony, Mr. Adair. That is all the questions I have, Mr. Chairman.

Senator LIEBERMAN. Thank you, Senator Dorgan. I don't have any further questions. Mr. Adair, Mr. Switzer and Ms. Vander Vennet, I thank you very much not only for your testimony today, but for all that you did to bring this case to the public attention. I would appreciate it, if you have the time, if you stay around for the next panel which includes Mr. Casey and the RTC executives.

Mr. ADAIR. I have a slight problem with that. My wife has been scheduled for surgery today and——

Senator LIEBERMAN. Oh, go right ahead. I am sorry to hear that, and if Mr. Switzer and Ms. Vander Vennet have the ability to stay, that would be great. We are going to keep the record of the hearing open for a couple of weeks so that you will be free, if you wish, to respond to anything that is said on the second panel.

Mr. ADAIR. Thank you, sir.

Senator LIEBERMAN. Thank you all.

We will now call the Honorable Albert Casey, President and Chief Executive Officer of the Resolution Trust Corporation, who I gather will be accompanied by Mr. William H. Roelle, Senior Vice President and Chief Financial Officer; Mr. J. Paul Ramey, Vice President, Division of Resolutions; Ms. Ann Hewitt, Assistant Director and Financial Instruments Coordinator; Ms. Karen Syzmanski, Asset Valuation Review Contract Coordinator; and Mr. Gordon Diachenko, Senior Asset Marketing Specialist.

Mr. Casey, you are welcome to bring any or all of those folks to the table with you.

Mr. CASEY. Thank you, Mr. Chairman. I will bring Mr. Roelle—I think I have got half the staff here.

Senator LIEBERMAN. Mr. Casey, if you would, and others at the table, I would ask you to stand just to take the oath. If you would please raise your right hand, do you swear that the testimony that you are about to give is the truth, the whole truth and nothing but the truth, so help you God?

Mr. CASEY. I do.

Mr. ROELLE. I do.

Mr. RAMEY. I do.

Mr. GEER. I do.

Mr. TIERNEY. I do.

Senator LIEBERMAN. Thank you very much. Please be seated. Mr. Casey, we welcome you under adverse circumstances, obviously, but, in the interests of fairness, we look forward to your testimony. We also indicated to you that we hoped you would keep your remarks to 10 minutes, but don't feel constrained by that limit if you have other things you want to say when the red light goes on.

TESTIMONY OF ALBERT V. CASEY,[1] PRESIDENT AND CHIEF EXECUTIVE OFFICER, RESOLUTION TRUST CORPORATION; ACCOMPANIED BY WILLIAM H. ROELLE, SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER, DIVISION OF INSTITUTIONS, OPERATIONS AND SALES; J. PAUL RAMEY, VICE PRESIDENT, DIVISION OF RESOLUTIONS; DENNIS GEER, VICE PRESIDENT, DIVISION OF ADMINISTRATION AND CORPORATE RELATIONS; AND JOHN TIERNEY, SENIOR CONTRACTING OFFICER

Mr. CASEY. Well, I am obviously concerned about all these reckless and negligent charges. They are not documented, and I will treat that subject. I would like to introduce—this is Mr. Paul Ramey, on the right; Mr. Bill Roelle; Dennis Geer; John Tierney.

Good morning, Mr. Chairman, members of the Subcommittee, wherever you are.

Senator LIEBERMAN. At least one will be back.

Mr. CASEY. I welcome the opportunity to appear today to address the various contracts entered into by RTC as it has attempted to resolve HomeFed, San Diego, California. As requested, I am accompanied by Bill Roelle, Paul Ramey, Ann Hewitt, Gordon Diachenko and Karen Syzmanski. In addition, senior RTC contracting officers are present to answer any questions you may have on the subject.

At the beginning, I wish to say that the work done by Price Waterhouse with respect to HomeFed—now, this is most important—has paid the U.S. taxpayers handsome dividends, and we will go into that later. Originally, it was our intention to sell all of HomeFed, both its deposits and its assets, at the same time. While we were not able to do so because of a lack of Congressional funding for the RTC, we have been able to sell in a timely fashion almost two-thirds of the institution assets, or $8 billion in securities, real estate and loans. We are continuing to sell the remaining assets and expect to sell them over the next 6 months.

Thus, because of the work of Price Waterhouse and other contractors, we had the due diligence and related work necessary completed to sell these assets quickly. As a result, the holding costs and asset deterioration were dramatically reduced. This was not brought up by the previous panel at all. We saved hundreds of millions of dollars.

Senator LIEBERMAN. You are saying because of the speed with which this was done?

Mr. CASEY. Yes. We saved the management costs, the time costs, the whole thing.

Senator LIEBERMAN. We will come back to that.

Mr. CASEY. We will. As a result, holding costs and asset deterioration were dramatically reduced, providing the taxpayer with higher net return than if we had waited for funding before beginning the due diligence process. We dove right into it and did it at once.

Senator LIEBERMAN. Just let me ask you—I apologize for intervening—a point of clarification.

Mr. CASEY. That is all right.

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[1] The prepared statement of Mr. Casey appears on page 63.

Senator LIEBERMAN. When you said if we waited for funding—are you going back to Congressional funding?

Mr. CASEY. Yes.

Senator LIEBERMAN. OK.

Mr. CASEY. Yes, I am.

Senator LIEBERMAN. Unrelated to this particular contract in that sense?

Mr. CASEY. With respect to the resolution of HomeFed.

Senator LIEBERMAN. Right.

Mr. CASEY. Before I begin detailing the genesis of the Price Waterhouse contract and how it fit into our overall approach of dealing with HomeFed and how the contract was awarded and monitored, I should like to assure you that the RTC recognizes the importance of contracting. We are greatly concerned about the problems exposed by our Western Storm affair which the full Governmental Affairs Committee examined. As you referred to, they examined it last spring.

Many improvements and contracting safeguards have been established, including—well, for example, we have provided for the establishment of a Washington contract unit to assist in monitoring contract operations in our six major field offices, one of the most aggressive systems in the Federal Government for identifying fraud by contractors, a competition advocacy program, and an active program of post-award audits and reviews which provide independent reviews to ensure that the contractor is performing satisfactorily and has an adequate internal control environment and is only billing RTC for work properly done under the contract.

Now, as to the particulars of HomeFed, with $12 billion in assets, I wish to call to your attention the fact that HomeFed is the largest institution that RTC has been asked to handle to date. In February of 1992, 5 months before HomeFed was placed under RTC conservatorship, the Office of Thrift Supervision and the RTC began discussions about resolving HomeFed through the accelerated resolution program, commonly called ARP.

The ARP is a program that has been developed jointly by RTC and OTS to resolve institutions without putting them under RTC conservatorship, thus avoiding any franchise deterioration that usually takes place during conservatorship. For similar reasons, it was also decided to market HomeFed's deposit franchise and asset base simultaneously, a program that RTC calls Coordinated Institution Marketing, or CIM, thus avoiding asset deterioration. This was very unusual treatment.

In order to accomplish this, it was necessary to do extensive due diligence on all of HomeFed's assets in order to give potential investors sufficient information to bid on the assets and to give the RTC the information it needed to evaluate bids and to issue the representation warranties that are standard in the marketplace. Given the size and complexity of HomeFed's asset base, it was necessary to hire several due diligence firms. This wasn't brought out at all by the Inspector General.

In addition, it was necessary to hire a firm to coordinate and administer the various due diligence contractors and to value any assets that were not valued by the due diligence contractors, and this contractor became known as the management continuity contrac-

tor. Through a competitive process, again not referred to at all, Price Waterhouse was eventually chosen as the management and continuity contractor.

It is important to note that while Price Waterhouse's role was to include some photocopying, primarily for a war room where potential investors could examine documents, this was not a photocopy contract. The primary purpose of the contract was to coordinate the activities of the due diligence contractors. Why this wasn't mentioned or brought out, I don't understand.

As originally envisioned, the Price Waterhouse contract was estimated to cost $5 million, and since we believed we had the knowledge of all the pertinent facts, an upper limit was not placed on the contract. I wish we had, but we didn't feel it was necessary.

Senator LIEBERMAN. Forgive me again for interrupting. Explain that a little bit more because that is central to some of the things that were said.

Mr. CASEY. Once you have got all the facts in on a contract and you have priced it out—and we did; we knew it was going to come in under $4 to $5 million and we had sufficient authority to do it in that fashion. We didn't put the upper limit cap on. We should have. I wish we had.

Senator LIEBERMAN. That was my next question.

Mr. CASEY. Well, we have a lot of contracts you don't put an upper limit cap on. Most contracts of this size are probably $30,000.

Senator LIEBERMAN. Right.

Mr. CASEY. And we don't want to put a $30,000 limit on it and then we need another $10,000 to finish it.

Senator LIEBERMAN. Yes, but this, by definition, by what you have just said, was an unusual one.

Mr. CASEY. It was, and we should have put it——

Senator LIEBERMAN. You should have put it——

Mr. CASEY. I wish we had.

Senator LIEBERMAN. Yes.

Mr. CASEY. I am trying to tell you why it wasn't done. This type of contract normally is minute. The average of this type of continuity contract is about a $30,000 contract.

Senator LIEBERMAN. Well, I don't want to take you off your track, but that gets to one of the other points that I think is being made here, which is that this was the wrong process for going at this relationship with Price Waterhouse.

Mr. CASEY. The process was all right. It is the magnitude that blew it.

Senator LIEBERMAN. That is what I mean. Because it was so big, this should have been——

Mr. CASEY. Yes.

Senator LIEBERMAN. And you agree with that?

Mr. CASEY. Yes.

Senator LIEBERMAN. Looking back at it, you think it should have been not one of these task order agreements, but a——

Mr. CASEY. No. The task order agreement was appropriate because it covered the functions to be performed.

Senator LIEBERMAN. Right.

Mr. CASEY. But because of the size, we should have brought in other features of the other ones. Through a competitive process, Price Waterhouse was named as the continuity contractor. I guess I covered all that.

At the time Price Waterhouse was selected as the management continuity contractor in May of 1992, still 2 months before HomeFed was put under RTC control, it was not known to either the RTC or to Price Waterhouse that there was an outstanding Federal grand jury subpoena. That is why it wasn't referred to in the development of the contract because we didn't know about it.

While the RTC has encountered Justice Department subpoenas in the past, this is the only time, the first time, that we have been required to produce this volume of documents to the Justice Department under subpoena. And more importantly, the HomeFed subpoena applied to substantially all the books and records of the institution as well.

You have to understand we need the originals of the records. We need the actual securities, we need the loan agreements because we are going to sell those as assets. Therefore, the Department of Justice needed good, absolutely accurate records to pursue its grand jury action.

In order for the RTC—none of these were referred to at all. I don't understand the testimony that we have been listening to. In order for the RTC to avoid producing the original documents, such as promissory notes, mortgages, certificates of deposit, loan agreements, and therefore delaying the asset sales, because the Department of Justice would sit on those things perhaps for years—I have got a bunch of documents that the Department of Justice took from me in 1983 and they have still got them, and we still ask for them and they say they are going to produce them.

The U.S. Attorney agreed to accept copies, but these had to be absolutely accurate and checked and rechecked. In order to permit the use of copies as evidence, meeting the technical requirements of the Federal Rules of Evidence, maintaining the chain of custody and providing complete, high-quality and orderly copies, certain extraordinary measures were required in the copying process.

HomeFed and the contractor selected for copying had to maintain a document control log. Copying had to be supervised by HomeFed employees with knowledge of the books and records of the institution. Each copy had to be compared with the original. Each copy had to be certified by the supervising HomeFed employee. The documents had to be maintained in the same order in which they were kept in HomeFed's files.

With me at the table, I hope I have got the right book, is a procedures manual that we had to compile to govern the document management at HomeFed. Sections of this manual that show just some of the requirements imposed by the Justice Department are attached to my written testimony, Exhibits B through D, and I urge you to look at them just to get some feel for the complexity that was required.

This resulted in a significantly more complex and broader scope of work than was originally anticipated. HomeFed's business records could not simply be bundled up and delivered to a copying service. RTC was obligated to hire a reliable firm experienced in

handling valuable documents and in maintaining complete records for evidentiary purposes. Price Waterhouse met the needs of the RTC and the Department of Justice.

Now, many questions have arisen with respect to the allegation of 67 cents per page photocopying charge. The 67 cents includes five components—preparation, copying, reassembly, quality control and quality assurance. While, to a certain extent, all these factors are required in any copying contract, the requirements imposed by the Justice Department went way beyond normal industry standards.

I would like to submit for the record this analysis of ordinary copying. This is ordinary copying and this is the HomeFed copying. I think it has been distributed.

Senator LIEBERMAN. We accept that for the record.[1]

Mr. CASEY. Thank you very much.

As is clear from this analysis comparing the cost of copying HomeFed documents to an ordinary copying contract is a little like comparing the cost of a commercial airline ticket to the price of a space shuttle flight. After all, they both involve flying.

To complete the story of HomeFed, ultimately it was not resolved under the ARP. The RTC did not receive additional funding, as we had hoped, and in July OTS placed HomeFed under RTC conservatorship. As I mentioned earlier, we have proceeded with asset sales and, to date, have sold approximately $8 billion of book value, or roughly two-thirds.

All this is not to say that no mistakes were made with respect to the Price Waterhouse contract. Clearly, some mistakes were made. In hindsight, given the expanded volume of work required of Price Waterhouse, it would have been wise to renegotiate the terms at the time the scope of the contract was expanded.

Senator LIEBERMAN. In other words, at the time that the Department of Justice subpoena came in?

Mr. CASEY. The subpoena was already there, but we didn't know about it. When we found about it——

Senator LIEBERMAN. Which was after the agreement was signed?

Mr. CASEY. And the contract had been let with Price Waterhouse.

Senator LIEBERMAN. So, looking back, you feel that you should have renegotiated at that point?

Mr. CASEY. Yes.

Senator LIEBERMAN. I agree.

Mr. CASEY. It would have been wise to renegotiate the terms at that time. In addition, it is clear that the contract should have had a "not to exceed" clause in it that would have set a limit on expenditures under the contract. This would have triggered further review when this limit was reached and an affirmative decision to spend more funds would have had to be made in order to proceed further. Our contract procedures require such clauses.

Moreover, it appears that the statement of work for this task order was broader than it should have been under the task order agreement, and that our delegations of authority did require that this task order be issued through the Contracting Office.

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[1] See page 114.

Upon receiving written notice in late December of the IG's concern over the Price Waterhouse contract—and I will certainly discuss everything Mr. Adair had to say in the question period—immediate steps were taken. In January, not February—in January, we sat down with Price Waterhouse to renegotiate the contract in light of the dramatic increase in services required since the contract was first put in place.

While the IG suggested that we revise the contract prospectively and focus on temporary employees, we focused our renegotiation on both past and prospective fees and all classes of employees. I am pleased to inform you that we got $4 million off. That would lower the price about 30 cents if you want to use the——

Senator LIEBERMAN. OK, so the renegotiation which was concluded in the last couple of days—at least we became aware of it—would reduce the 67 to 30 cents if you accept the 67?

Mr. CASEY. No, no. It would reduce it by about 30 cents.

Senator LIEBERMAN. By 30 cents?

Mr. CASEY. Yes, 30, 35 cents, in there, and it will save $4 million. In addition, however, we have taken steps to make sure these anomalies will not occur again. We have made it clear to the program offices that contracts, including task orders, must be executed by contract officers from the Office of Contracts unless the delegations of authority specifically permit otherwise when the loan or process is approved.

However, Mr. Chairman, I want to assure you this is not a contract run amok. As required by the RTC, within 30 days of beginning work, the contractor provided RTC its first projected final cost. By this time, the Justice requirements were known and the estimate was $21.6 million to $23.1 million.

In addition, RTC supervision of this project was extensive, not referred to at all by the Inspector General. Project management included regularly scheduled written reports and meetings, including but not limited to weekly reports submitted by each financial adviser, weekly conference calls with RTC project management and financial advisers, weekly meetings with HomeFed asset managers and financial advisers, biweekly meetings with the OTS and on-site examiners, daily meetings with all due diligence contractors and on-site management representatives. Periodic meetings were scheduled as necessary with the appropriate contractors. An example, a copy of the daily report for July, is attached to my written testimony as Exhibit E.

Now, let me refer to the Inspector General's testimony. Before I conclude, I should like to address some of the specific allegations in the IG's report. These were given to me yesterday. The IG gave that to the oversight board. One set of documents arrived at 9:30 last night, so I have not had time to give the careful review that I should like to.

Clearly, as I have stated, some mistakes were made, and the IG is right to point them out. That is why we have an Inspector General. However, there are some allegations that have been made by the IG in his written statement that are not true and I can't let them go unanswered.

First, the IG states, essentially, RTC's management, in conjunction with OTS, set a deadline to resolve HomeFed without properly

planning for what lay ahead. I have got them here some place. Let me show you the planning that was done. Here they are.

Senator LIEBERMAN. Could you repeat again which document it is you are looking for?

Mr. CASEY. A feasibility study—this is the action plan. Where is the feasibility study?

Mr. ROELLE. It is attached.

Mr. CASEY. So don't tell me we haven't done the job. Here is the action plan. So we have got them right here and I will attach them to the record. He said we did not properly plan for what lay ahead. We did properly plan and here is the documented evidence. I don't know why he didn't ask for it. And then we did a feasibility study on May 4th. This was done on April 1. I have got the feasibility—here it is; here is the feasibility study. Don't say that we didn't do the job. We did the job.

Second, the IG's statement states that, quote, "Senior management's sales-driven focus dictated the pace and actions that followed. The deadline became RTC's goal." The deadline was critical and very important. I will go into that later or I will have Mr. Roelle cover it. We had to have that.

The goal was to resolve HomeFed and sell its assets as efficiently as possible. While, as I have already stated, some mistakes were made, they were honest mistakes and none of them were related to the deadlines. That is perfectly ridiculous to say that we were deadline-driven.

Third, the IG's statement, quote, "The RTC's interests were not protected" and that the contract signed by RTC was a page-and-a-half—it was not a page-and-a-half. He completely ignored the fact that the page-and-a-half document includes the task order issued under a 35-page master contract which provided the protections he alleges are missing. Now, why that wasn't referred to I don't know. We have got it and it was done. It was not a page-and-a-half contract.

In addition, he completely ignored the careful supervision we had under the contract. I am sorry you missed it, Senator, and I hope you will read it.

Senator DORGAN. I have read your testimony, Mr. Casey.

Mr. CASEY. Good. Thank you.

Fourth, the IG's statement claims millions have been wasted. The IG never once analyzed the savings to the taxpayer in the holding costs and avoided asset deterioration from selling HomeFed's assets in a timely fashion. It was never asked for; he never asked us a thing about it. Thanks to the work of Price Waterhouse and the due diligence contractors hired by RTC, we were able to move quickly to sell the assets. How the IG could conclude that millions have been wasted by examining only the cost side and not the revenue side—I have never heard of such a review.

Fifth, the IG's statement claims we did not act on its recommendation made on December 21, 1992 that we renegotiate the Price Waterhouse contract until February 5, 1993. That is not true. I told you, early in January we started this thing. I don't know where those dates come from.

Sixth, the IG's statement claims that, quote, "The RTC's efforts have fallen short of what is necessary to prevent unnecessary situations, wasteful spending, from occurring," and points out, in particular, that, quote, "In the case of Western Storm, our report was issued in March 1992, but four recommendations remain unresolved." That is not true.

Lest the Committee be left with the erroneous impression that we have not responded to the IG on these issues, we have responded. These are areas where we have an honest difference of opinion. There has been and continues to be ongoing dialogue with the IG, but don't say we overlooked them and didn't report them.

Finally, I should like to end by saying how disappointed I am with the way this matter has been handled by the IG's office. As is their proper role, they have been investigating alleged wrongdoing, and when they had preliminary evidence of impropriety they came to me with their concerns. The audit is not complete. No report has been issued. I haven't even received a draft report.

Normal IG procedures call for it to issue a draft report and for us to comment on it. Then these comments are incorporated in the final report. Had the IG's office followed its own procedures—they say, well, we don't follow our procedures; he sure as heck doesn't follow his procedures. If he had followed his own procedures, the cause of accuracy, to say the least, would have been greatly advanced.

In particular, we would have had an opportunity to explain to the IG why its headline-grabbing 67-cents-per-page copying cost was way off the mark. I only hope the IG's office will take a more measured approach in the future. A strong, objective IG is of vital interest to the RTC and the taxpayer.

I hope this information has been responsive to your concerns. I and my associates stand ready to provide any additional information you want. I went over the time and I apologize.

Senator LIEBERMAN. Not at all; it is your right. Thank you, Mr. Casey. Listening to you, let me offer this first reaction. You have offered a spirited defense of RTC's actions in this case. On the other hand, it seems to me that you have acknowledged that some mistakes were made, and some of the mistakes are directly, in my opinion, the reason why we are concerned about it and why the IG issued its statement, which is to say there should have been a ceiling in the initial contract.

Mr. CASEY. I agree.

Senator LIEBERMAN. The contract, in fact, should have been renegotiated after the Department of Justice subpoena became known to everyone. So part of the question that we are asking here is why did this happen. Let us accept as a given that Price Waterhouse performed ably here; that is, carried out its functions ably, and that allowed you to go ahead and sell some of the assets of HomeFed in a timely way. But that doesn't excuse them or RTC from having paid too much for the services that Price Waterhouse performed.

I mean, let me start with this part of it. You indicated that RTC pretty much knew everything about the contract, and that was the reason why you did not place a ceiling amount on the contract at that point. But if you actually knew everything about what the con-

tract entailed, why not ask for a fixed-price bid here instead of essentially giving Price Waterhouse an open-ended opportunity to charge?

Mr. CASEY. We should have done that. That type of contract typically didn't have—it was so small. As I explained, we used a facility because it was appropriate for the job to be done, but it wasn't appropriate, really, because it was such a large contract.

Senator LIEBERMAN. Mr. Roelle, you were the person in charge of investigating Western Storm, I know from our hearing last year, and reporting on it to Mr. Casey. Therefore, you were very familiar with the way in which task order contracts like the ones we are involved with here now again could mushroom into multi-million-dollar obligations. Why didn't you implement some of the simple measures that are in the manual that you have now issued, the CPPM, earlier?

Mr. ROELLE. They were implemented, Senator. I noticed in your statement you indicated that this area is under my supervision, as is the Accounting Department, the Investigations Department, the Conservatorship Operations Department, and the Resolutions Department. I believe you will find that our contract guidelines are implemented in each of those departments.

What hasn't been said here in this particular case is one that is an anomaly in the RTC.

Senator LIEBERMAN. This case is an anomaly?

Mr. CASEY. Yes.

Mr. ROELLE. Yes, and I will tell you why.

Senator LIEBERMAN. Why?

Mr. ROELLE. It may take a few seconds.

Senator LIEBERMAN. Go right ahead.

Mr. ROELLE. Historically, the resolutions activity had a delegation and an ability—and I believe Jack Adair mentioned that, that Mr. Cook had given some verbal dispensation that allowed for these contracts under the AVR program to be issued directly by the contracting person in the resolution area.

It was their impression, and I believe Contracts agrees, that that person had the authority and continued to have the authority to issue task orders. What happened after our new delegations came out is that we would have been subject to the manual, but that person within the resolution area would have continued to be able to issue the task orders.

What happened, without any of us being aware of it, was that our own delegations that we issued probably raised a question of whether—even though Contracting thought and agreed that this person had the authority—our own delegations that we put in place in February at least raises the question of whether, even though there was this understanding that they would issue these task orders, whether they really could or not. So that was where we got a confusion between whether who issued the task order could or couldn't.

Now, as far as everybody else, they all——

Senator LIEBERMAN. Let me just interrupt you.

Mr. ROELLE. That is the only anomaly and this is the only contract that has been issued that turned out like this.

Senator LIEBERMAN. Well, I am happy to hear this is an anomaly because this is not a happy situation.

Mr. ROELLE. I don't think it is either.

Senator LIEBERMAN. I was going to ask you why it took until January of this year to finally make clear in writing that the asset valuation resolution program personnel do not have authority to execute task orders, which was 9 months after Western Storm.

Mr. ROELLE. Well, the reason is that we and Contracts as well thought that they did have the authority. We didn't need to issue any because we had no money as of April, so we absolutely never got around to issuing any.

Senator LIEBERMAN. You are aware, as the IG testified earlier, that Mr. Cook denied in his interview with the Inspector General's staff that he ever made an oral authorization for these task orders to be signed?

Mr. ROELLE. Yes, sir, I am aware of that, and I am also aware that our contracting officer had the conversation with Mr. Cook, apparently, and Mr. Cook did say that it was OK. So I can't explain the differences. I only know what the IG has represented. I do not know what Mr. Cook has said.

Senator LIEBERMAN. Before I yield on this round to Senator Dorgan, let me just ask, Mr. Casey, do you agree—and I will come back to the Department of Justice, but do you agree, particularly, I suppose, in light of the renegotiation that occurred, that the 67 cents a copy was much too high?

Mr. CASEY. Yes. Of course, we didn't know it was going to be 67 cents when we waded into it. It is too high.

Senator LIEBERMAN. It is too high?

Mr. CASEY. Sure, and then we went and we sat down with them and they gave us back the $4 million.

Senator LIEBERMAN. And you didn't know it because of the Department of Justice subpoena. Is that what you are saying?

Mr. CASEY. Yes, yes.

Senator LIEBERMAN. I presume that you are as outraged as we are.

Mr. CASEY. Absolutely.

Senator LIEBERMAN. And particularly when you hear that they hired temporary employees and paid $1.8 million for their services and then billed you 4.3, I mean you have got to feel like you were taken there.

Mr. CASEY. It was abusive.

Senator LIEBERMAN. Yes.

Mr. CASEY. It was an egregious act and it shouldn't have been done. But while I have got the floor, let me clear up Xerox in Houston at 11 cents and 17 cents.

Senator LIEBERMAN. OK. I want to ask you about that because when I asked Mr. Adair the apples-to-apples question, you were shaking your head.

Mr. CASEY. No, no.

Senator LIEBERMAN. Why were you shaking your head?

Mr. CASEY. Because Houston—it is a totally different thing. They shipped a number of boxes, and I have got it written here. Some 252 boxes were shipped by mistake from San Diego to General Electric Credit in Houston. They were all in one room, in one loca-

tion. It was a much easier job. There was no transportation at all. The per-page cost could be up to—well, let me explain.

This contract is different from the Price Waterhouse contract in the following ways. First, the files are at a single location and the copying is performed at a single location, eliminating the need for transport and some of the other costs that are related to that.

Second, this work is expected to take 30 days for production of 21,000 documents per day. My God, as a comparison, at the rate of 21,840 copies per day, it would have taken 476 days to make the 10 million copies that Price Waterhouse produced in a third or a quarter of that time.

Senator LIEBERMAN. Yes, but presumably Price Waterhouse was employing a lot more of those temporary workers to do it.

Mr. CASEY. Oh, absolutely.

Senator LIEBERMAN. Wasn't it basically the same function, page to page?

Mr. CASEY. Yes, but they didn't have the checking-in, checking-out. They didn't have all the reviews. They didn't have to, you know, have the people there to transport them back and forth. It was very different.

Just to give you a sample of the work by Price Waterhouse, if you took their 10 million copies and put them up in a pile, it would be the height of six Washington Monuments. It is an unbelievable volume.

Senator LIEBERMAN. A lot of paper, which reminds me of the old line that if you took every economist in the world and laid them down end to end, they wouldn't reach a conclusion. [Laughter.]

Senator LIEBERMAN. Yes, Mr. Roelle?

Mr. ROELLE. Senator, we have handed out this comparative document. I believe staff has drawn out here on this document, if you go to the heading of "Copy" on the first page, the second part of it, and you go down three bullets over on the right and you draw a line, and then you go down six more bullets and draw another line, that is what our folks indicate was the Xerox portion of what they did for 11 cents.

Senator LIEBERMAN. Within those two lines?

Mr. CASEY. Yes.

Mr. ROELLE. That is right, as compared to all of this other stuff that was having to be done at the site at HomeFed.

Senator LIEBERMAN. Yes. Well, I want to yield the time. I do want to come back because, again, it gets all very detailed, but I guess Xerox, as you heard, told Mr. Adair that they thought if they had it to do over again they would have charged 17 cents. Even under your renegotiation, you are still at 37 cents with Price Waterhouse. It still sounds high.

Mr. ROELLE. I believe that they are not including the supervision that would have had to have been placed even by us at those sites where those boxes were opened. Those costs weren't included in Xerox' estimate so——

Senator LIEBERMAN. OK. We will check back on that. I want to yield to Senator Cochran now.

Senator COCHRAN. Well, thank you, Mr. Chairman. Let me just ask, based on your hearing the testimony this morning from the Inspector General and the questions that have been asked of you, do

you have the opinion that the fairness of this proceeding is prejudicial to your interests? Have you been treated unfairly in any way by the Committee or by the Inspector General in the reports that have been tentatively submitted on this?

Mr. CASEY. Are you asking me, sir?

Senator COCHRAN. Yes, you or Mr. Roelle.

Mr. CASEY. Yes, I think I was treated very unfairly because I wasn't given the material in advance. We were prepared to give ours to the Inspector General. I got his yesterday; I got some last night. I don't think that is fair.

Senator COCHRAN. Yes. Mr. Roelle?

Mr. ROELLE. Senator, I believe that the IG—the findings they have found are, in part, absolutely correct and we would not question them. We would wish that we had put a "not to exceed" on this task order. We don't have any quarrel with that.

The Chairman asked Mr. Adair, for example, had he met with all the RTC officials and gone over all these findings with them, and their concerns. The only meeting I have had was with one of their investigators who only questioned me regarding what I knew about what went on. There were no overall findings ever presented to me until this December memorandum came around, which was not addressed to me, but indeed was addressed to Mr. Tierney.

I did talk to them, and after they talked to me and sent me something in November regarding the discussions with the rest of the staff in Resolutions, I did come to the conclusion that we had made a mistake, that we had not acted appropriately in the issuance of that task order, and I met with my staff and I indicated to them that because we had not handled that task order correctly, we needed to make sure that our people who had the authority to do it were transferred back to Contracting and put directly under Contracting's control instead of under indirect control. We did arrange for the reassignment of those staff people to the Contracting Office.

I think what is bothersome to me is that you asked the questions and the answer is nods and, yes, we talked to management. But I think that implies that a lot more discussions were had, that a lot more things were discussed with us than actually were ever discussed with us. We have never received a formal report of this whole thing, even a draft of it. We have gotten things that say, as you are aware, we are currently conducting an audit, but we have found this one problem we think you really ought to look at, which was the renegotiation of fees because of the overcharges they had discovered as a result of the pass-through from temporary help.

I believe—and they can speak for themselves, but I am to understand that our contracting people did contact Price Waterhouse some time in January, not in February, and tried to set up meetings and get them in there and start the negotiations on this, which I am told Price Waterhouse was more than happy to accommodate them and said that they would come in.

I think that what is unfortunate about this is, yes, we made some mistakes here and I am not going to try to sugar-coat it. I wouldn't do that; it is not in my character. But on the other hand, I think this thing has gotten a little hyper-ventilated. I believe, if you watched the TV last night, I can tell you that Mr. Donaldson

confronted me in Mr. Casey's office and asked me did I think 67 cents a copy was a good price, and then I responded by saying were you aware, Mr. Donaldson, that we were under a Department of Justice subpoena and that we had to take extraordinary measures in copying all these documents, that they had to be dual-controlled, that they had to be certified, that we had to make sure that every document came out of the file in a certain order, went back in a file in a certain order? Were you aware, Mr. Donaldson, that if we didn't comply with this, if the Justice Department tried to submit any of these files as evidence in any criminal proceedings, they would be taken to task by whoever they were trying to prosecute that the files were able to be tampered with, that they weren't under control. We negotiated with the Justice Department and they still said, we are not changing the rules, you are going to have to do it our way.

Mr. Donaldson then said to me on camera, this puts a whole different complexion on this issue, doesn't it? Now, I don't recall seeing that last night.

Senator COCHRAN. The fact is that we do want both sides. We want all the facts, and I think that is the driving motivation behind our investigation. It certainly is on the part of this Senator. The purpose of my question was to be sure that our record is complete. If there are things that can be said by you that would justify the prices that were contained in this contract that RTC agreed to pay, we need to know about them, and we need to know all the ramifications of this experience so we can learn from it.

If there were mistakes made, as you have now admitted and as we had suspected, we need to correct those mistakes. I think that is what this is all about, and I appreciate your making available to us what your thoughts are on that subject.

Thanks, The CHAIRMAN.

Senator LIEBERMAN. Thank you, Senator Cochran.

Senator Dorgan?

Senator DORGAN. Thank you very much. I should say with respect to Senator Cochran's statement, this hearing, I am sure, is not an exercise to see someone turn slowly on a rotisserie here, and I don't think you meant that. You know, the purpose of the hearing is to try to understand what happened and what can be done to prevent that sort of thing from happening in the future.

Senator LIEBERMAN. Absolutely.

Senator DORGAN. I guess, first of all, when I hear this I say: Look, somebody screwed up. The taxpayer shouldn't be paying that much to copy documents. Let me just review with you again so I understand what happened inside the institution that allowed there to be a contract issued for a scope of work that apparently is either well-defined or undefined and that did not include a "not to exceed" clause in the contract.

Who negotiated this contract with Price Waterhouse?

Mr. ROELLE. Let me try to answer. This contract originally was negotiated by the contract office, the master contract that this task order was issued against, was negotiated for the purposes of doing asset valuation reviews in institutions. An asset valuation review is a review where we get a contractor to go in and look at the assets in the institution. They do sampling. They check the assets in

the institution against what is on the books of the institution for, and then they come back to us with an estimate of what the value of those assets are for purposes of determining what the losses would be in the institution. When we do a resolution, we do what is called the cost test and that determines how much of the cost is borne by the insurance and how much would be borne by uninsured depositors. And in using that test, we make a determination.

Senator DORGAN. You are telling me a little more than I want to know. I think I know that. That is the larger contract?

Mr. CASEY. Yes.

Mr. ROELLE. Yes, sir.

Senator DORGAN. Within that contract, there is a compartment that deals with copying, is that correct?

Mr. ROELLE. No, sir. I don't know. I would have to get it out and read all the print. That is the 35 pages Mr. Casey referred to.

Senator DORGAN. Who contracted with Price Waterhouse for copying?

Mr. ROELLE. I am going to explain that.

Senator DORGAN. I only have 5 minutes.

Mr. ROELLE. Well, I didn't realize that my answers constrained you. I am sorry.

Senator DORGAN. But you were talking about asset valuation. I am trying to understand, when you negotiated with Price Waterhouse to copy documents, who contracted with them to do that.

Mr. ROELLE. Our program office didn't——

Senator DORGAN. Where?

Mr. ROELLE. Here in Washington.

Senator DORGAN. Someone in your program office contracted with Price Waterhouse?

Mr. ROELLE. No sir. What we do is we take the people who qualified under that AVR contract, the big contract, and put out what is called a task order that says we received your original bids, this is the work that we have to have done. They come back. The fees that they charge are controlled by the original contract that they bid us. Then the task order simply says go do this work under the broader contract, which, by the way, does have travel requirements and all of those things in it.

Senator DORGAN. And then who issued the task order without a "not to exceed" clause in it for this?

Mr. ROELLE. The people down in the resolution area that issue contracts, the person that I had been explaining to the other two Senators who has the authority to issue task orders, or at least under our understanding thought they did.

Senator DORGAN. So there was a statement of work or a scope of work that was negotiated. There was some understanding about how much work there was.

Mr. ROELLE. Yes, sir.

Senator DORGAN. There was a contract that says "go do it", and there was nothing in there that says, by the way, don't charge us $100 million or $50 million. It is just "go do it?"

Mr. ROELLE. Well, not exactly.

Senator DORGAN. OK.

Mr. ROELLE. There was a task order issued, and this is the task order which was 1½ pages, not the contract, the task order. Then you have a contract that I don't have here that is 35 pages—this is the controlling contract that this task order was issued against that has all of our travel regs and expenses, and so forth, in it.

Then we had Price Waterhouse, a request on them, to come back to us within 30 days with the hours, budget, how much this would cost, and their best estimate of what they would need to do for the long term of the contract. They went out, they did it. This was the submission they gave us under this task order requirement. This submission is, I don't know how many pages long, about 40 pages.

Senator DORGAN. What is the date on that?

Mr. ROELLE. May 10th.

Senator DORGAN. Now, could you tell from the May 10th submission that you were going to be paying 67 cents a copy?

Mr. ROELLE. No, sir.

Senator DORGAN. Why not?

Mr. ROELLE. Because nobody knew about the Department of Justice——

Senator DORGAN. But, in my judgment, that is largely irrelevant, the question of the Justice subpoena.

Mr. ROELLE. I do not believe so.

Senator DORGAN. Well, we can perhaps—I have got a whole series of questions. I am not going to get through the first one in 5 minutes. The testimony by the Inspector General is that another contractor did it for 11 cents, could do it for 17 cents with the same set of restraints that you imposed on Price Waterhouse.

Mr. CASEY. No. I think you missed the—I explained the Xerox situation.

Senator DORGAN. No. I was here when you explained that. You indicated that there should have been more supervisory costs attached to it.

Mr. CASEY. No, no. It was a different set of facts. All the boxes were in a single room. There was no transportation, there was no signing in, signing out.

Senator DORGAN. Well, then, from that document from Price Waterhouse, did you as managers understand they were going to bring in people from Mexico and Alaska and Hawaii, or Gods knows where they brought them in from, to work on this contract and charge you a couple million dollars in travel costs and various and sundry costs for this?

Mr. ROELLE. No, sir.

Senator DORGAN. Could you tell that from that contract?

Mr. ROELLE. The contract was originally envisioned—and this is why I think the Justice Department subpoena is relevant, but that is for all of us to come to our own conclusion——

Senator DORGAN. Let me just ask you, you are saying it is relevant because the Justice Department subpoena would justify the copy charges we are talking about here? You are not saying that, are you?

Mr. ROELLE. Yes. I think—I am not saying——

Senator DORGAN. Mr. Casey has already said the 67 cents was out of line.

Mr. CASEY. It is out of line.

Mr. ROELLE. It is out of line.

Senator DORGAN. Well, then why—OK, go ahead.

Mr. ROELLE. But you are not—could I answer?

Senator DORGAN. Yes.

Mr. ROELLE. When they submitted this to us, their expectation of file control and reproduction was for a total of 32 people, 10 of which were clerical, for the amount of copying that we all thought would have to be done. That was 32 people out of a total of around 300 that was expected under this contract. That is why I think when they got out there and were faced with the Justice Department requirements that it did increase the cost considerably.

Senator DORGAN. Would you submit for this Subcommittee your judgment, as folks with business backgrounds, of what a reasonable charge per copy would have been under this contract? You say 67 cents was too high.

Mr. ROELLE. Yes, sir.

Senator DORGAN. You say the Xerox 11 cents or 17 cents is too low. You think it is somewhere in between. Would you tell us what you think that is? And do you think if we submitted what your estimate is going to be to us to other firms that we would find that that is something that we would get bids on as a reasonable charge?

In other words, let me ask the question in a little more clear way. You think that if we put this out for bids at 17 cents, we wouldn't get people to bid on it. Is that right?

Mr. ROELLE. I don't believe so, but I——

Senator DORGAN. Because costs are above that?

Mr. ROELLE. Because I believe costs are above that, yes, sir.

Senator DORGAN. One more question, Mr. Chairman.

Senator LIEBERMAN. Sure.

Senator DORGAN. This has now been renegotiated and we understand that the cost is 37 cents. Apparently, you think that is reasonable?

Mr. CASEY. No. I think it is too high. They had no legal liability to give us a penny.

Senator DORGAN. But you had enormous leverage.

Mr. CASEY. Absolutely, we had enormous leverage.

Senator DORGAN. Why would you not have used that leverage to get to a price that is reasonable?

Mr. CASEY. We did. Where do you think we got the $4 million? We used the leverage.

Senator DORGAN. No, but I am saying why would you not use the leverage of the Federal Government with a firm that does a lot of business with the Federal Government to say we want this contract negotiated for copy cost prices that are reasonable to the taxpayer. And if 37 cents is too high, why wouldn't you get to the right price? Would Price Waterhouse not agree to that?

Mr. CASEY. Look, now, they have already been paid. They have got the money.

Senator DORGAN. I understand that.

Mr. CASEY. Yes, and I don't think they would. There is only about $1 million left of contract work in the contract, so this was just a plain old give-back. We haven't paid them since, I think it is October or something like that.

Senator DORGAN. But I mean we are not talking about the generosity of a corporation here, I assume. I mean, I assume they renegotiated because they understood what had happened here was wrong.

Mr. CASEY. Absolutely.

Senator DORGAN. You have some leverage, and I am just trying to understand, if 37 cents is more than we should have paid, what we should have paid and how much more money should that firm give back to the taxpayer. Can you give me any estimate on that?

Mr. CASEY. We got them to lower the price, what was it, 20——

Mr. GEER. Twenty percent. My name is Dennis Geer, Senator. Mr. Tierney works for me. He is the head of contracts and we were working on this, and Mr. Tierney can jump in when he would like.

What we did is we had the contract—when we received knowledge from the IG that we should take a look at this, their comments were renegotiate from the time that was left in the contract, which would have been starting in January we would have recomputed it. Well, the bulk of this work had been done. Essentially, Price Waterhouse was amenable to coming in and talking to us.

The thrust of what we were looking at is a cost sheet of, as you pointed out, Senator, about five different categories, and I don't have them in front of me, ranging from—the top for a senior partner is $160, down to $17 for clerical. Now, the $17 for clerical would include copying as a part of that activity. When they bid this price out under the AVR master contract, it was a very small portion of that activity.

They also bid initially on a contract they thought was going to be $5 million, not more than $5 million, and their prices reflected that reality, as did the others who also submitted bids.

What we did is take a look at all of the cost categories, and we sat down with them and what we ended up negotiating was not for copying charges. We renegotiated a 20-percent discount on all five labor categories, which in the end ultimately will come out to $4 million-plus because what we are talking about is we went back from the time when they made $5 million. It is the $5 million that stays at the same rates that they were paying that they bid on. From $5,000,001 forward, they are discounting the rates 20 percent on all labor categories.

Senator DORGAN. Do you agree that Price Waterhouse still ended up receiving more per copy for this contract than they probably should have?

Mr. GEER. I can't say that, sir. I am basing my opinion from the contracting side as to what I had, and I wouldn't say that.

Senator DORGAN. Mr. Chairman, I have taken more time than I—I appreciate your indulgence.

Senator LIEBERMAN. Not at all. I appreciate your questions.

I will come back to this and clarify something for myself. In the original contract which you estimated might be a $4 to $5 million cost, am I correct in my understanding that there was going to be a copy made of every document at HomeFed?

Mr. ROELLE. No, sir. The copying that was anticipated at HomeFed under the original contract would be only for those asset files and the particulars that were needed out of asset files to go into a war room, not every document in the file.

Senator LIEBERMAN. Do you have any idea of what number that was? I know we keep using the number 10 million that were ultimately copied under the Justice Department subpoena.

Mr. ROELLE. Well, the best we have been able to estimate, because this is all after the fact, is that they were going to be dealing with about 74,000 asset files and they were going to have to make copies of not every document, but the pertinent documents like the note and the loan agreement and things like that, to pick those out of the file and put them in what we call a war room so that investors could come in and have access to the copies so that they could make some judgments about what was necessary for them to bid on the assets.

Our people indicate that under the worst set of circumstances, which would have been copying some number of originals and then making multiple copies, it could have gotten as high as 6 or 7 million copies.

Senator LIEBERMAN. OK, so the Department of Justice subpoena expanded the number of documents to be copied by perhaps 3 to 4 million and, by your testimony, expanded the activity related to each copy?

Mr. ROELLE. As I understand it, I was not out there when the Justice Department guidelines were put on, but what they would have done would have just made sure that the copies were correct and put them into a file and said, yes, these are copies and this goes to this file, these copies came from this file. Justice put much more stringent requirements on us so that there could never be a question that any document in that file was out of place from when it was in that file. They had to bar-code them. They had to have multiple people, they had to have joint control. There were a number of cost considerations.

Senator LIEBERMAN. Here is my question, and you have helped to clarify it a little bit by the extra number of copies. I wanted to make it clear for the record that this is not just the additional functions, but the extra number of copies. But, still, we went from an original estimate of, let us say, 5 million up to a contract that looked like, before your renegotiation, was going to cost between $25 and $30 million. So can we really say that the Justice Department subpoena added $20 million to the cost of the contract?

Mr. ROELLE. Senator, that is a question we are asking ourselves. We are trying to go back and figure out if we actually underestimated or not. I don't think we know that yet.

Senator LIEBERMAN. You are in that process?

Mr. ROELLE. Yes, sir. We have the same question. We are not trying to blame the Justice Department for a mistake we made. We are simply trying to say that extraordinary requirements were placed on us that increased substantially this contract. I asked them when we were talking to them recently, did you really believe that you were bidding on about approximately a $5 million contract when we talked to you, and the answer was yes.

They went out there, they discovered what the requirements of Justice were going to be, the dual-control requirements and all of that. They came back to us within 30 days, as prescribed by their own submission to us in acceptance of this contract, and told us at

that time, based on all of these new requirements, it was probably going to be a $21 to $23 million contract.

Senator LIEBERMAN. So they did in that second submission give you a kind of outside figure?

Mr. ROELLE. Yes, sir.

Senator LIEBERMAN. But there still wasn't a cap on the contract, correct?

Mr. ROELLE. That is correct, sir.

Senator LIEBERMAN. And again, looking back, you wish you had done that?

Mr. ROELLE. Absolutely.

Senator LIEBERMAN. Yes.

Mr. ROELLE. What would have happened if we had had a cap—the cap would have been overrun and then we would have stopped and said, wait a minute, we have got to look at this.

Senator LIEBERMAN. Right.

Mr. ROELLE. The problem was it did not have an overrun and so it just basically went. However, they did come back to us and our program folks did know that it was going to be $21 to $23 million. Now, we have talked to them and I believe they are—I can't make judgments for them, but they thought that that was basically the result of all these additional requirements that we had to do if we were going to do this job.

Senator LIEBERMAN. Of course, the other hope that I would have had, and I am sure you would, too, is that if you had a cap in the initial contract, there would have been some pressure on Price Waterhouse not to have taken the extraordinary mark-ups they took on some of the work that they subcontracted out. Or, at a minimum, when you hit the cap you would have been—an alarm would have gone off. You would have looked at it and you would have been able to curtail some of that excessive charging.

Mr. ROELLE. That is correct.

Senator LIEBERMAN. Here is a question. The question is whether the Legal or Contracting Department was notified of the discovery required under the Department of Justice subpoena under this contract, and if not, whether there are now procedures in place for a prompt notification of your contracting people when unanticipated events such as the subpoena occur. This is in the category of have we learned from our mistakes in this one.

Mr. ROELLE. Absolutely. They should have, if something new has been put in place, we should have caught that then. It is not whether it was new. We did—when they came back to us at $21 to $23 million, we should have picked up on it and we didn't. The only thing I can say is that in moving this function back under direct contracts, presumably it would have been caught if that had been the case. So we can't offer an excuse that we have suddenly changed our policies. We should have caught it before.

Senator LIEBERMAN. OK. Senator Cochran?

Senator COCHRAN. Thank you, Mr. Chairman. You were here when I asked the Inspector General whether he would have any recommendations for new procedures that would help keep this kind of thing from happening in the future. His response basically was that you have your own guidelines in place and if they had been followed, this would not have happened.

Is your conclusion the same as his? Do we need to have instituted new procedures or safeguards, or are there new regulations that need to be promulgated or new laws that need to be passed to help keep this from happening again?

Mr. ROELLE. I don't think new laws. I think one thing that we have looked at, clearly because of something that was raised earlier about the fact that cheaper labor rates were acquired than the ones that were bid to us and we are working on this with Contracting now, that you can make sure that if that happens, even though you are bid on a competitive basis a rate structure but that rate structure was predicated on the costs associated with the company itself, as well as on its health benefit plans and all the overheads that are associated with employees. If that company somehow avoids using its own employees with a higher cost structure and is able to go out and secure cheaper labor sources where they don't have to pay health insurance and they don't have to do a lot of other things and they don't carry them on their payroll and all those things, that we somehow factor into our rate structure requirements that they certify, that they could only take the actual costs of the labor that they secure and then put on only the requisite overhead for them to manage those sources and some additional profit, you know, for the company for undertaking the task.

Now, we are trying now, and I have talked to Mr. Geer about that, to see if we can structure our contracts, all contracts, to kind of deal with this issue of somebody going out and securing labor at much less rates than they have actually bid us in the contracts.

Mr. GEER. Senator, may I give just one brief comment?

Senator COCHRAN. Yes, Mr. Geer.

Mr. GEER. As Mr. Adair pointed out, a lot of the SAMDA contracts do a lot of subcontracting, and in those areas you get a lot of areas like copying, et cetera. As we pointed out earlier, if we knew the magnitude of the copying requirements at the time, we would have probably just done a straight-through like we have done in a lot of our SAMDA contracts where, in essence, they don't mark it up. If I am inaccurate, Mr. Tierney can correct me, but essentially it is a straight pass-through and you pay for the rates themselves without the overhead.

Senator COCHRAN. Mr. Casey, it is my understanding that you have announced to the employees your intention to resign from the RTC before you term expires. Are you resigning because of the controversy surrounding this situation?

Mr. CASEY. No, no, no. Sam Donaldson and I discussed that and I told him I had been talking to Treasury since January 20th about my bowing out, and they are not doing anything about replacing me. So that is why I came out with it and gave them a deadline. It is as simple as that. If they would let me stay and finish my program, I would stay. If they don't want that, then I want out tomorrow.

Senator COCHRAN. Thank you. I have no other questions, Mr. Chairman.

Senator LIEBERMAN. Thank you. Just one statement and then one other question. My staff indicates to me that it was their understanding on the question of the number of copies that Mr. Adair has testified, or at least indicated to us that Price Waterhouse indi-

cated to him that the number of copies had not measurably increased from the initial understanding of the contract after the subpoena was issued. You and I have had a conversation which leads us to a different statement of fact. I believe there may be a conflict here and we will try to resolve that for the record.

Mr. ROELLE. Yes, sir. Staff indicates to me, as I said, that they may have made triplicate copies of what was needed and that might have accumulated to somewhere between 6 and 7 million copies.

Senator LIEBERMAN. OK. The final question is to you, Mr. Casey, and, Mr. Roelle, you can get into it if you want. Obviously, we are all upset and appreciate the fact that, you know, you indicate today that you are upset about the way this all went. Part of what was also upsetting in the Inspector General's testimony and the sense that we had of this was that we had someone here in the Inspector General who was beginning to blow a whistle, if you would, in October and he wasn't getting the reaction from yourself, Mr. Casey.

In your letter to Secretary Bentsen and the correspondence you have had in the last week or so, you indicated that you first learned of the problem in December. Now, he testified that he started to advise you of it in October. Why don't you tell us what the difference is there and what happened?

Mr. CASEY. Mr. Adair is quite correct. We meet for approximately an hour every Monday afternoon and he comes in with his own agenda. That agenda—well, it varies from time to time, but it would have six to ten different items on it. Don't think this was the only item on it. I don't remember the attachment, but I am sure his word is correct.

What I do is I meet with—well, let me start at the beginning. Every Monday morning, I meet with the senior officials. It is sort of a communication meeting; that is all it is. And then during the week, I meet with each of them. There are about six of them and I meet with them for an hour and I talk about goals, objectives, problems, opportunities, personnel, all that sort of thing.

Jack is a very disciplined fellow and he comes in with a written agenda on the items, and if he says it was in there in October, I am sure he is right. I don't remember it in October at all, I really don't, but I am sure it was mentioned as one of many items. It wasn't the focus of that, but if there was a memorandum attached to it, I put that in my staff file and distribute it the next Monday. And the other fellow is bringing in pieces of paper, too, and we distribute them on Monday morning.

Senator LIEBERMAN. So in the normal course, having received a memo on this HomeFed Savings situation, the following Monday that would have gone to one of your folks?

Mr. CASEY. One of the staff, one of the people at the staff meeting.

Senator LIEBERMAN. Right.

Mr. CASEY. And I can't tell you who because I just don't keep those kind of records, to be honest. But I will take his word for it if he says that it was there.

Senator LIEBERMAN. So why wouldn't anything have happened? I mean, I am just taking a look at this. This is Adair's agenda and he has got a page here at the October 19th meeting which he titles

"Concerns Over Price Waterhouse Due Diligence Coordination Contract at HomeFed," and he itemizes it is similar to Western Storm, no cost limits, not been adequately monitored, et cetera, et cetera. So why wouldn't anything have——

Mr. CASEY. It would be discussed, but it wouldn't necessarily be reduced to writing right away, and I know we would wait for his draft of his report, it is the one thing we want. But we will certainly pass on the word to the operation itself, absolutely, no question about that.

Senator LIEBERMAN. Ultimately, again, by his testimony he indicates he was frustrated by the lack of reaction from the top management, so he went to Contracting. Was that to Mr. Geer that he ultimately——

Mr. CASEY. Why didn't he ask me?

Mr. GEER. To Mr. Tierney.

Senator LIEBERMAN. To Mr. Tierney, yes.

Mr. CASEY. Why didn't he ask me? He never expressed any exasperation, or I never heard that until this morning. He didn't say, why don't you do something.

Senator LIEBERMAN. I mean, he says he spoke—I don't want to misquote him, but I know he said he spoke to you or someone ten times.

Mr. CASEY. I don't buy the ten times, but I certainly—I will abide by his written records and agenda, but believe me, we talk about it and we get about it. He never expressed any exasperation to me because I certainly probably would have overreacted to that.

Senator LIEBERMAN. Yes. Mr. Tierney, when Mr. Adair spoke to you, did he express exasperation with the reaction he was getting from Mr. Casey and others?

Mr. TIERNEY. I did not speak with Mr. Adair. My first knowledge of the written comments was the receipt of the memorandum from Sharon Vander Vennet, and that was the memorandum that was dated December 21st. The only conversations I had with OIG people were the investigating or the auditing people that led up to that management memorandum.

Senator LIEBERMAN. So they really went to the substance of their concerns rather than the question of whether they felt they were getting a timely response from others in the RTC?

Mr. TIERNEY. That is correct, that is correct.

Senator LIEBERMAN. All right. Well, you know, we live and learn. Unfortunately, we sometimes live and learn at costs to the taxpayers. I appreciate the extent—we have had a lot of back-and-forth here, but it seems, bottom line, everybody, including yourselves, agree that mistakes were made, that there should have been a cap here, that it should have been renegotiated after the subpoena became evident, and by your own words, if I remember them correctly, Mr. Casey, that Price Waterhouse's charging here was abusive and egregious.

So the hope that we all have, and I am sure you as much as we, is that we learn from this. I know you have got a big operation going. There are a lot of things happening. It is, unfortunately, a multi-billion-dollar operation. You know, I take no pleasure from being part of these accusations. Our function here, as my two colleagues have indicated, is really to find out what happened, wheth-

er mistakes were made—everyone acknowledges they were—and to make sure they don't happen again. You know, my fondest hope is that we are not back here again with RTC with anything like this occurring.

Mr. CASEY. Well, that is a very reasonable conclusion and we appreciate your interest and your care. We have sold $300 billion of assets, so this is a small part of this organization. I don't want to see them take it out on old dad because I am walking anyway, these people are terrific people that I am working with.

Senator LIEBERMAN. Senator Cochran, do you have anything you want to add?

Senator COCHRAN. No. Thank you very much for your cooperation.

Senator LIEBERMAN. All right. Thank you all.

The record of the hearing will be kept open for two weeks if you want to add anything, and I suppose, in fairness, we will let you know and share documents as others submit them so you can respond to them.

The hearing is adjourned.

[Whereupon, at 12:13 p.m., the Subcommittee adjourned.]

APPENDIX

STATEMENT
OF
SENATOR WILLIAM S. COHEN

Before The
Subcommittee on Government Information and Regulation

February 19, 1993

Mr. Chairman, I want to thank you for holding this hearing today to examine the lack of contractor oversight at the Resolution Trust Corporation.

To say I am disturbed at the findings from the RTC's Inspector General in the case of HomeFed Savings Association is an understatement. I am angry, as all taxpayers should be. The RTC pleaded with the Congress to exempt it from the procurement rules and regulations required of every other federal agency under the guise that it is necessary to enable the RTC to act expeditiously and in the best interest of the taxpayer. Congress provided the exemption and RTC abused it.

Today, the RTC's Office of Inspector General will testify that RTC hired Price Waterhouse, one of the nation's top accounting firms, to essentially perform photocopying services. This is tantamount to hiring a tax attorney to babysit and, from what I understand, Price Waterhouse charged similar fees. The IG concluded that RTC may have paid at least $6 million more than it should have for such services. Even more disturbing is the fact that RTC's contract with Price Waterhouse allowed the firm to mark up subcontractor fees over 340 per cent. The poor planning and oversight, and the failure of top management to stop this fiasco as soon as they knew, is inexcusable. The agency created to bail out the government has failed miserably and made the partners of Price Waterhouse rich. RTC's management had better get the message that RTC does not stand for "Robbing Taxpayers' Cash."

In what I am sure will go down in the annals of government waste and abuse with the $640 toilet seat and the $435 hammer, we now, thanks to poor contract oversight by RTC, have the 67 cent copy. Considering that Xerox was willing to do it for 11.5 cents per page, and that Kinkos is willing to copy 1000 sheets at 3 cents per copy, I think this can be fairly characterized as an outrage. But the waste does not stop there. As part of the same contract, Price Waterhouse hired temporary clerical supervisors at $10 to $15 per hour and billed RTC $39 an hour. The totals are staggering. During one contract period, Price Waterhouse paid a temporary agency about $1.8 million, then turned around and billed RTC almost $4.3 million.

Price Waterhouse is clearly guilty of greed but appears to have acted completely within the law. Therefore, the blame must rest firmly on the shoulders of RTC management for this outrageous example of waste. The fact that RTC's Contract and Legal Departments were never consulted during the solicitation and award of this contract on its face suggests that RTC's poor contracting practices could be costing the taxpayer hundreds of millions of dollars. This is not the first case of slipshod RTC contract oversight reviewed by the Governmental Affairs Committee.

Last March, the Governmental Affairs Committee listened to RTC witnesses explain away Operation Western Storm, the RTC's failed $24 million project to reconcile the books of failed thrifts in RTC's Western Region. The witnesses testified that the problems were not widespread but resulted from RTC's failure to include clear guidance in its Western Storm contracts, that the contracts were not planned or issued according to proper or usual contracting procedures, and that required delegations of authority were simply neglected. RTC testified that the processes and procedures would be in place to prevent another debacle. They were wrong.

The Price Waterhouse contract was awarded less than two months after the Western Storm hearing which gives us some idea as to what the assurances I am sure that we will hear today are worth. I was pleased to see that our former colleague and current Treasury Secretary, Lloyd Bentsen, urged a thorough investigation of the HomeFed contracts and expects the RTC to recover any excessive payments. While we know the costs are excessive, there is some question as to whether any of it can be recovered.

People in my state of Maine will hear about this and feel cheated. And rightfully so. They will be outraged and angered by RTC's failure to spend scarce federal resources responsibly. I am certain that today we will hear a number of excuses and assurances like we did last March during the Western Storm hearing. As the other Senators on this panel know, RTC's excuses and assurances can never adequately explain why the government paid $35 an hour to copy files, especially to the millions of citizens now being asked to pay higher taxes.

Wednesday night President Clinton said, "it is time for government to demonstrate...that we can be as frugal as any household in America". I know of no household that would pay 67 cents per copy or pay an extra $6 million for nothing. Simply put, the RTC allowed the taxpayer to get ripped off.

Today this Subcommittee is singling out RTC's failure but, unfortunately, poor contracting is a major problem throughout the government and costs taxpayers billions. The problem is deeper

and more systemic than anyone would like to admit. In recent months, Congress, the Office of Management and Budget, the General Accounting Office and the Inspectors General have all reported on the federal government's failure to contract responsibly. Since arriving in Congress, I have worked aggressively to address contracting problems. While we have legislated on the rules and processes of contracting, most problems seem to arise from a lack of two critical elements -- common sense and accountability -- the former being difficult if not impossible to legislate.

During every session of every Congress, scores of agencies come before the committees and subcommittees apologizing for collectively wasting billions of taxpayer dollars. My observation is that, for the most part, the laws are in place that should prevent these fiascos, but agency management has failed to monitor contract formation and perform contractor oversight. In case after case, agencies get into trouble when personnel ignore rules and fail to use common sense. Only rarely are the responsible individuals held accountable. It is my hope that the RTC and, for that matter, all agencies view this hearing as an opportunity to take the initiative and turn off the waste spigot.

PREPARED STATEMENT OF SENATOR AKAKA

Mr. Chairman, I appreciate your convening this hearing today to investigate allegations into contract mismanagement involving the resolution of HomeFed Bank in San Diego, California by the Resolution Trust Corporation.

It is unfortunate that the question of RTC contract management is before us again. This issue was visited last March when the full Governmental Affairs Committee focused on the agency's inability to reconcile the records of the RTC regional ledger with those of the failed thrifts it was acquiring. The substandard contracting practices associated with "Western Storm" resulted in wasting about $3 million of taxpayers' money.

I participated in last March's hearing into the investigation concerning Western Storm. At that time, the RTC was asked to reform its contracting procedures. Moreover, we were told that the RTC would organize its contracting procedures. I had hoped that the problem of contract oversight would have been resolved, apparently not.

I would like to remind my colleagues, that not only did we look into contract procedures last March, we also reviewed the matter in September of 1990, when then-director of Asset and Real Estate Management Division, Lamar Kelly, testified that he was creating and implementing contract procedures. That was 2½ years ago.

And now, here we are again looking into charges that the agency paid excessive amounts for photocopying services—which are reported to be in the area of $6 million. I understand that Price Waterhouse, the company who managed the copying, has, in the wake of publicity surrounding this matter, has renegotiated its contract so that $4 million will be saved on future bills. The fact remains, however, that the RTC paid approximately $35 an hour to individuals operating copying machines.

Furthermore, these charges were incurred because a contract was signed that had neither a dollar amount nor a completion date. It was not signed by a contract manager, nor did the contract comply to proposed regulations being drafted at the time by the RTC.

I would like to add that as one who has criticized the use of public funds for the bailout of failed savings and loans, I am extremely concerned that charges of waste and abuses continue to be raised, particularly in light of recommendations resulting from Congressional hearings, attempts to legislate reform and through investigations conducted by the Inspector General.

I know that the RTC is exempt from standard Federal procurement practices because of its mission. However, had prudent contracting procedures been followed, coupled with oversight controls, I believe the gross misuse of Federal money could have been avoided.

Although the RTC is not bound to contract practices formulated by the Federal Government, it does have an obligation to negotiate a good contract. The gross overruns reported in the closing of HomeFed is a reflection of the disregard of public confidence held by the RTC.

Although today we are here to learn what continues to be wrong with the RTC contracting procedures, I would again like to remind my colleagues, and those of you who are testifying today, that mismanagement of funds only takes the RTC away from its appointed task of selling the assets of failed thrifts. Congress might be spared from authorizing the use of additional taxpayer funds if the RTC were more conscious of good contracting procedures.

I would not be so critical if this were an isolated incident. If the RTC cannot police itself, Congress must, and will, do the job. Congress should reject providing further funding to the RTC unless we mandate fundamental reforms to correct accounting and internal control problems.

I appreciate the Chairman's efforts in bringing this matter before the Subcommittee and look forward to receiving today's testimony.

PREPARED STATEMENT OF SENATOR MCCAIN

As a new member of the Government Affairs Committee, I want to express my pleasure at having the opportunity to serve on the Regulation and Government Information Subcommittee. I look forward to working with Senator Lieberman, Senator Cochran, and my other colleagues on the Subcommittee this year.

It is indeed important that the Subcommittee hold this hearing today to look into the cost overruns which occurred in the Resolution Trust Corporation's contract regarding the HomeFed Savings Association. Media reports and the testimony that

will be given by the RTC's Inspector General today provide a disturbing story of a contract which resulted in an eggregious waste of taxpayer dollars.

After reviewing the facts pertaining to the alarming cost overruns of the RTC's HomeFed contract with Price Waterhouse, I can further appreciate the feelings of the millions of Americans who are angered at how their tax dollars are managed and spent at the Federal level.

The charges for copying services paid by the RTC are simply indefensible. When a public agency is paying $.67 per page for labor costs on a copying contract—with no cap on total charges to the agency—something has gone very wrong. This contract exposed the government to virtually continual cost overruns, and a loss of at least $6 million in public funds is the result. An open-ended agreement that has been described as a "contractor's dream" has proved to be a taxpayers nightmare.

The testimony that will be given by RTC Inspector General John Adair concludes that during this "clearly avoidable series of events," the "RTC management disregarded policies and procedures that were put in place to protect" the interests of the RTC and the taxpayer alike. The Inspector General found that the HomeFed contract debacle serves as a "case study of a deadline driven organization" that is inadequately focused on the need to curtail costs.

If these findings are accurate, I think this committee may have to re-evaluate previous pledges by RTC officials that they have improved and reformed their contracting procedures, and need no new procedures or congressional oversight. When the Inspector General of the RTC finds that "millions have been wasted" on the HomeFed contract after these reforms were supposed to be in place, it may be necessary to explore additional ways to ensure that RTC officials are not emphasizing the rapid sale of assets to the detriment of prudent financial management.

The mistakes made by RTC officials in executing and managing the HomeFed contract are numerous and troubling. The RTC paid 67 cents per page for labor costs to an accounting firm for what has been described as "essentially photocopying services." To highlight just how inflated this cost is, the RTC's Inspector General found that the agency had contracted for similar services with another firm that processed HomeFed documents for one-sixth the cost charged by Price Waterhouse!

Furthermore, the RTC entered into a contract which robbed the public treasury by accepting hugely excessive mark-ups on the costs of subcontracted labor. Price Waterhouse hired a temporary-employee firm to actually perform much of the copying work, and was billed by this subcontractor for $1.8 million in labor costs for a two month period. Before passing this charge along to the RTC, Price Waterhouse marked up the bill 125 percent, which resulted in a bill to taxpayers of over $4 million.

Unfortunately, this was not the worst example of blatantly excessive billings paid for by the RTC. The agency was charged a mark-up of 345 percent for the labor costs of a billing manager hired by Price Waterhouse. As a comparison, the Inspector General's report states that the Department of Defense procurement guidelines reveal that a reasonable mark-up on subcontracted work of a similar nature is 2 percent.

I'm very interested in the explanations for these errors by RTC officials. I hope they fully recognize that the agency must never again enter into contracts that have no ceilings on costs, or that at least contain internal review procedures that activate once cost overruns are encountered. In the case of the HomeFed contract with Price Waterhouse, a job that was expected to cost $4-$5 million became a fiscal disaster that is now at $25 million "and counting."

Furthermore, I'm troubled by the apparent lack of action by senior RTC officials when problems with the HomeFed contract were first brought to their attention. The Inspector General states that the RTC delayed for several months before seeking to renegotiate the contract with Price Waterhouse. This sluggishness in investigating a fairly clear-cut case of cost overruns raises concerns about the sincerity of RTC officials respones to instances of inefficiency and waste.

The omission of the RTC's Contracts and Legal Division from participation in the execution of the HomeFed contract undoubtedly helped cause the many problems brought to light by the Inspector General. The IG's finding that the RTC did not comply with their internal contract approval process needs to be thoroughly explored by the agency. If established contracting procedures that are designed to protect the public's investment in the RTC are not steadfastly adhered to, this Subcommittee will again have to bring RTC officials before us to explain a similar situation in the future.

This need not be the case. RTC officials should use this opportunity to tell us their views on how the HomeFed problem occurred, and how they will prevent it from happening again. I'm hopeful that today's hearing will add energy and determination to the RTC's efforts to properly carry out their challenging and unique re-

sponsibilities to the American people. In reviewing the HomeFed case, such a rededication to effective contract management is evidently necessary.

PREPARED STATEMENT OF JOHN J. ADAIR

We are here today at your request to discuss our ongoing audit of RTC's contract with Price Waterhouse for services at HomeFed Federal Savings Bank (HomeFed) in San Diego, California. You indicated that today's hearing would address several issues, notably the cost of the contract, whether RTC has paid excessive amounts for the services delivered under the contract, and whether RTC followed its own required procedures and good contracting practices in conducting this procurement.

Your letter to me of February 11, 1993, indicated that the Subcommittee is particularly concerned that this contract may have resulted from substandard contracting practices similar to those addressed in hearings on Western Storm last March,[1] and may reflect continued RTC inattention to the importance of contracting.

I will begin by summarizing our findings to date. I want to stress that the knowledge my staff has gained regarding the facts surrounding this contract with Price Waterhouse has been unusually difficult to obtain in that RTC has documented so few of its actions along the way. We have primarily relied on interviews and on-site observation in an attempt to piece together the various parts of the story.

SUMMARY OF FINDINGS

RTC has paid about $7 million, or 67 cents per page for labor only, for an accounting firm to perform what are essentially photocopying services. As of September 30, 1992, Price Waterhouse had copied over 10 million documents. RTC has obtained similar services at a cost of about 11.5 cents per page, which included the labor, copiers, and supplies. Therefore, we estimate that RTC may have incurred excessive costs of more than $6 million through September 1992 and an undetermined amount from October 1992 to date. A portion of the $7 million that RTC has paid to Price Waterhouse is for subcontracted services that are "marked up" by the contractor and billed to RTC at an amount in excess of what Price Waterhouse actually paid for these services. Some of these "mark-ups" exceeded 340 percent but are allowable under the contract that RTC entered into with Price Waterhouse.

To perform these photocopying services and document management functions, Price Waterhouse has brought in approximately 700 staff from over 60 of its offices in the United States, including Hawaii and Alaska, and Canada and Mexico. At one point, about 1,300 Price Waterhouse and its subcontracted employees were on site. Essentially, Price Waterhouse is being paid an average of $35 per hour for its photocopying services and has produced an average of 51 copies per hour. RTC is also paying for all related travel costs, which totalled $2.3 million as of September 15, 1992. We noted several instances where employees brought in from Price Waterhouse's out-of-state offices worked on the project for fewer than 40 hours before returning home.

We do not know how much the copying and document management has cost to date. While Price Waterhouse was supposed to submit bills every 2 weeks, the bills it has submitted that my office has seen are only for work performed through September 30, 1992. The costs for Price Waterhouse's work could exceed $25 million in the end, with a significant portion being for photocopying services.

What recourse, if any, does RTC have? From a legal standpoint, it would appear that RTC has little contractual recourse. Although Price Waterhouse's work was considered a major task, RTC wrote a page and a half "contract" that provided no protection to the Corporation and gave the contractor carte blanche. (A copy of the "contract" is attached.) In fairness to Price Waterhouse, RTC allowed the firm to, in effect, charge these amounts and perform these services. The result is what we consider to be excessive charges.

Based on our recommendations, RTC's Office of Contracts is now renegotiating the rates charged by Price Waterhouse and agreed to by RTC. Why does RTC now find itself in the position of trying to renegotiate a flawed contract? To answer that question we need to go back to almost a year ago.

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[1] Western Storm refers to a project run by RTC's Denver Office. Our February 1992 report concluded that management acted inappropriately in contracting for the project by not following established contracting policies and procedures, not establishing realistic goals and strategies before undertaking such a large project, not exploring less costly alternatives, not following delegations of authority, and inadequately overseeing the project, wasting about $3 million in the process.

CHRONOLOGY OF EVENTS

In February 1992, the Office of Thrift Supervision (OTS) identified HomeFed as an institution to be resolved. HomeFed was. the eighth largest savings institution in the United States, having approximately $13 billion in assets.

To resolve HomeFed quickly and at the lowest possible cost to the taxpayers, OTS and RTC jointly decided on April 3, 1992, to use a modified version of the Accelerated Resolution Program (ARP), where RTC attempts to sell an institution before it is taken into conservatorship. RTC also decided to incorporate elements of its Coordinated Institution Marketing (CIM) Program. Simply put, RTC wanted to offer franchise buyers an opportunity to purchase not just the liabilities (deposits) but also the assets of the institution. According to RTC, this type of offering increases the competition for the assets, which in turn should increase the dollar amount of the bids received. At that time, RTC had not attempted a combination of an ARP and a CIM.

OTS and RTC agreed to a September 30, 1992, sales deadline for the institution—a very ambitious goal that would prove to be unrealistic in the end. This deadline became the driving force for many actions taken by RTC staff working on the project.

On April 7, 1992, RTC hired Kenneth Leventhal, another accounting firm, to perform a feasibility study to determine the actions needed to meet the September 30 sales deadline. During the study, Kenneth Leventhal determined that RTC would need a total of five due diligence[2] contractors and a "management and continuity contractor." Ordinarily, a single firm would be engaged to perform the due diligence function. However, because of the size of HomeFed and the anticipated September 30 deadline, Kenneth Leventhal recommended additional resources in its feasibility report.

On April 28, 1992, the program office staff solicited for the management and continuity contractor and required a response two days later. By April 30, three firms—Price Waterhouse, Kenneth Leventhal, and Grant Thornton—submitted proposals for the management and continuity work. The next day, Kenneth Leventhal formally presented its feasibility study to RTC. It is interesting to note that Kenneth Leventhal concluded that "the completion of the due diligence process within the specified time constraints will be a difficult and challenging task due to the large number of assets held by HomeFed Bank and the relatively compressed timeframe."

On or about May 1, the program office staff reviewed the three proposals received and determined that Grant Thornton had submitted the lowest blended hourly rate. At this time, RTC did not have a formal cost estimate, but based on its experience, it knew the cost "would be a lot."

On May 4, 1992, Grant Thornton arrived at HomeFed to begin the management and continuity work, and, on the same day, RTC presented the feasibility study findings to OTS. The next day, RTC formally executed a management and continuity contract with Grant Thornton.

Three days later (May 8), RTC's National Sales Center Director told his staff to take away Grant Thornton's management and continuity responsibilities. We were told that there were a number of reasons for this action. For example, according to RTC staff, Grant Thornton had been told not to staff the HomeFed project with individuals from the other institution where Grant Thornton was performing due diligence work—Investors Federal Savings Bank in Richmond, Virginia—but Grant Thornton did so anyway. Also, RTC staff said Grant Thornton was not copying collateral files quickly enough to keep due diligence contractors occupied when they were scheduled to arrive the following week. After "cancelling" the Grant Thornton contract, RTC verbally notified the two losing bidders to submit revised bids. In retrospect, these problems with the first management and continuity contractor were early indications of deficiencies in RTC's planning and contracting for HomeFed.

On May 9 and 10 (within 2 days of asking), RTC received revised bids. One day later, the due diligence contractors arrived at HomeFed. On May 13, RTC divided the management and continuity work among Grant Thornton, Price Waterhouse, and Kenneth Leventhal. On that same day, Price Waterhouse reported to HomeFed to take over Grant Thornton's previously contracted responsibilities relating to document management.

Two days later (May 15), RTC learned that HomeFed's asset files were under a Department of Justice subpoena. Documentation supports that RTC did not learn

[2] Due diligence involves data collection to prepare investor files, property inspection, market analysis, cash flow analysis, asset valuation, and preparation of asset pools. Potential investors use the information collected and analyzed during the due diligence process to assist in their determination of a bid price for the assets.

of the subpoena until May 15. It is disturbing to note that OTS and others had much earlier knowledge of the subpoena, but RTC was not aware of its existence until this time. OTS knew of the subpoena on January 17, 1992, the day it was served on HomeFed. The subpoena drastically limited access to original HomeFed files, thus necessitating some increase in controls over the files.

On June 12, 1992, RTC determined that because of a lack of funding, HomeFed could not be resolved under the modified ARP. Two days later, in light of Department of Justice demands, Price Waterhouse issued document control procedures designed to track and document the movement of asset files. Prior to this time, Price Waterhouse copying and document management activities were well under way and expanding daily.

OIG ACTION ON ALLEGATIONS

On July 31, 1992, we received an anonymous letter by way of our Hotline alleging mismanagement, waste, and abuse by Price Waterhouse in carrying out its contract at HomeFed. The letter alleged that (1) an excessive number of Price Waterhouse professionals were assigned to the contract, (2) 95 percent of the work was being performed by temporaries, (3) unnecessary and excessive charges were incurred for lodging, car rental, and airline travel, (4) Price Waterhouse was over-hiring temporaries, and (5) Price Waterhouse was not adequately tracking its billable hours.

We performed a preliminary review to determine the merits of the allegation. Based on the results of this review and because of the similarities of the issues to Western Storm, we began a full audit in September and shortly thereafter we notified RTC management of our audit.

In October, we also elevated our concerns to RTC's President and Chief Executive Officer. On October 19, 1992, in one of my weekly meetings with Mr. Casey, I provided him with a copy of an internal memorandum issued to me by my Assistant Inspector General for Audit. This memorandum laid out in detail our preliminary findings on the allegations and highlighted the weaknesses in the contract. All told, on at least 10 occasions between October 1992 and February 1993, I provided written updates on the HomeFed audit to senior management. I provided Mr. Casey information on our updated findings through detailed agendas prepared for several of our weekly meetings as well as through copies of my correspondence with RTC's Oversight Board. This correspondence consists of monthly briefing documents that are distributed to the Board Chairman and all Board members, including Mr. Casey.

In addition, since it appeared that senior management was not taking action in response to our earlier warnings and realizing that the contract was due to expire but work was continuing, we wrote to RTC's Director, Office of Contracts, on December 21, 1992, urging him to immediately renegotiate the contract. By this time, we had uncovered another disturbing element—the excessive mark-ups that Price Waterhouse was charging RTC for its subcontracted work. Copies of our memo to the Director of the Department of Contracts were given to RTC's Senior Vice President and Chief Financial Officer, who was primarily responsible for resolving HomeFed, and to Mr. Casey. It was not until February 5, 1993, that RTC began renegotiating with Price Waterhouse.

In a *Washington Post* newspaper article on February 13, 1993, an RTC official claimed that RTC was not aware of our findings until quite recently, which I find to be astounding. Your letter to me dated February 16, 1993, asked me to submit copies of all related correspondence and meeting notes documenting the various notifications that were made to RTC management, and I have provided that information.

HOW DID THIS HAPPEN?

How could RTC award such a large contract with virtually no controls or protection? Essentially, RTC's senior management, in conjunction with OTS, set a deadline to resolve HomeFed without properly planning for what lay ahead. Senior management's sales driven focus dictated the pace and actions that followed. The deadline became RTC's goal. As a result, RTC ignored contracting policies, procedures, internal controls, and overall costs.

The Office of Contracts and the Legal Division Were Not Involved

RTC's program office personnel did not involve two key components of any contracting effort—the Office of Contracts and the Legal Division. Program office personnel were allowed to write and execute the contract, and, as a result, key elements were missing. According to RTC's policies and procedures, the program office is primarily responsible for determining that a contracting need exists, providing a

clear definition of the work needed, estimating costs, and suggesting possible sources for solicitation. On the other hand, the Office of Contracts and the Legal Division ensure that RTC's interests are protected and that key controls are included in the contract. The Office of Contracts and Legal should be involved to direct the contracting process to ensure that

- services needed are adequately defined, complete, and clear;
- firms providing the needed services have been identified and solicited;
- proposals are evaluated on a consistent basis in order to determine the best and most qualified firm to perform the work;
- negotiations are held to obtain the best price;
- the appropriate contracting vehicle is used;
- the award has been authorized; and
- the contracted services are within the funding limitations of the contracting vehicle being used.

Had the Office of Contracts and the Legal Division had input in these areas, we believe that many of the ensuing contracting problems would have been avoided.

An Inappropriate Contracting Vehicle Was Used

The program office issued the contract using a task order agreement designed for completely different services. The task order agreement used was for obtaining asset valuation reviews (AVR),[3] which are generally awarded on a fixed price basis and average about $30,000 per review. On the other hand, the management and continuity contract dealt primarily with coordinating the activities of other contractors and photocopying. It was awarded as a time-and-materials contract, which, according to subsequent discussions with the AVR contract coordinator, would cost $5 million. However, there is no documentation supporting this estimate. To justify the use of the AVR task order agreement, RTC's Department of Resolutions added an AVR requirement to the responsibilities assigned to Grant Thornton. There were no AVR responsibilities assigned to Price Waterhouse. RTC's own internal documentation states that AVR work would be minimal, if any. Furthermore, the AVR contract coordinator subsequently told us that using the AVR task order agreement "was a stretch."

Instead of using this task order, RTC should have assessed the nature of the work to be done, determined the appropriate expertise to accomplish the tasks, and solicited firms accordingly. Essentially, we question RTC's need for an accounting firm to perform the types of tasks in the agreement. For example, were the capabilities of an accounting firm necessary to

- arrange for copying of files and fiche,
- arrange for copying of investor information,
- record and distribute minutes of daily due diligence contractors' meetings,
- monitor "hand off" of assets between contractors, and
- prepare and maintain a schedule of personnel for each due diligence contractor required to staff the "war room?"

We think not. In our view, these tasks could have been performed by RTC personnel in conjunction with contractors skilled in document management and photocopying.

The Proper Delegations of Authority Were Not Followed

The program offices did not follow the Corporation's delegations of authority. RTC's delegations in effect at the time were very clear and senior management was well aware of their applicability. Specifically, the delegations state "authority to execute competitive contracts pertains to the administrative function of soliciting for and actually entering into contracts. As such, it is a support function requiring technical expertise in the contracting area."

Furthermore, the delegations state that ". . . it does not authorize RTC managers to actually execute contracts; that must be accomplished through established contracting channels," which means that contracts must be signed by a contracting officer. Program office officials are only authorized to initiate the contract process within their delegated expenditure authorities. In this case, we found no evidence that the proper authority was received.

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[3] The goal of the AVR is to estimate the value of assets of a failing savings institution. Generally, AVR contractors review both a dollar volume of assets and a certain number of assets to determine a valid estimate of the total loss in the asset portfolio. This estimated loss is critical because it flows into RTC's resolution cost model and is used to estimate the most cost-effective method of resolving the institution.

The delegations are a key control of the Corporation. Prudent fiscal management requires that planned expenditures be reviewed prior to procurement. This review is intended to achieve the most effective and economic use of amounts made available, to provide for contingencies, and to bring about savings. Delegations are the vehicle by which this review is achieved.

RTC Interests Were Not Protected

The May 13, 1992, contract with Price Waterhouse signed by the Department of Resolutions was a page and a half document that contained only a brief description of the management and continuity contractor's key responsibilities pulled from the feasibility study; a reference to the agreed-upon hourly rates; instructions to invoice RTC twice a month; and a period of performance which began on May 4, 1992, and could extend through the end of 1992.

This time-and-materials contract contained no maximum ceiling price; no maximum on the amount of travel costs that RTC would reimburse; no time limit or period of performance; no delivery dates or schedules; no schedule of "deliverables," including work products and progress reports; no acceptance criteria; no penalties for late delivery; and no terms for cancelling the contract. A Senior Attorney in the Contracts Section of RTC's Legal Division characterized this contract as "a contractor's dream."

Perhaps the most striking example of the contract's flaws is its lack of a provision limiting mark-ups on subcontracted labor. Our analysis of the costs paid by Price Waterhouse to firms providing the temporary and professional employees compared to the billings Price Waterhouse submitted to RTC for these employees shows that Price Waterhouse has realized excessive mark-ups on labor costs.

For example, for the period from June 1 through July 31, 1992, a temporary agency billed Price Waterhouse $1,791,060 in straight time and overtime for clerical employees and clerical supervisors. For the same period, Price Waterhouse billed RTC $4,036,127 for these temporary employees using its proposed hourly labor rates, realizing a mark-up of $2,245,067 or 125 percent. For the pay period ending September 30, 1992, Price Waterhouse's mark-up had increased to 198 percent for temporary employees.

In another instance, Price Waterhouse hired a billing manager through a temporary agency at a rate of $1,505 per week. Price Waterhouse billed the billing manager to RTC at a rate of $6,700 per week, a mark-up of 345 percent.

We note that Price Waterhouse's overall risk on this contract is minimal—Price Waterhouse incurs little or no additional overhead or personnel costs as a result of using these temporary employees, most employees are not using Price Waterhouse's facilities or equipment, Price Waterhouse is not penalized for late delivery, and Price Waterhouse can bill RTC for correcting mistakes or errors. Accordingly, we believe that a substantially lower mark-up rate would have been appropriate. As an example, under Defense Federal Acquisition Regulations, a reasonable mark-up rate on the subcontracted labor would be 2 percent based on the low level of risk associated with this contract. Of note, in many contracts RTC issues, such as its asset management contracts, RTC allows no mark-up on subcontract costs.

As I earlier stated, the time-and-materials contract did not contain measurable criteria that could be used to evaluate Price Waterhouse's progress and respective costs. As a result, effective oversight was precluded. For a time-and-materials contract such as this, real-time reviews of contractor performance and cost are mandatory for control purposes. These reviews did not occur.

RTC also did not require Price Waterhouse to provide any productivity targets or measures regarding the number of copies to be made in a particular time frame and the number of employees required to accomplish the tasks. Furthermore, RTC did not perform any floor checks to confirm attendance or to ensure that staff were productively employed.

WHAT'S THE BOTTOM LINE?

Millions have been wasted. A deadline was set, and, to meet this deadline, RTC management disregarded policies and procedures that were put in place to protect RTC's and the taxpayer's interests. RTC's contracting policies and procedures and the levels of approval outlined in the Delegations of Authority, which are key controls within RTC, are very clear but were not followed.

We recognize that shortly after Price Waterhouse began its work at HomeFed, RTC learned of the Department of Justice subpoena, which somewhat altered the tasks anticipated. But, knowledge of the subpoena also offered RTC management an opportunity to get this contract under control. However, we found no evidence that at that time, those involved considered the impact of the subpoena on costs or reassessed their planned approach. Had they reevaluated the circumstances, we believe

that they would have gained a better understanding of the tasks involved and realized that even with the subpoena, the services of approximately 700 members of an accounting firm were not necessary for photocopying services.

Based on interviews with RTC staff and review of the few pertinent documents that exist, it does not appear that, at any time, those responsible considered the costs of the contract. From the start, there was no sound estimate of what the contract could ultimately cost. As the work progressed, there were no comparisons of budget to actual billings because no detailed budget existed and because after November 1992, RTC received no additional billings.[4] Although work continues to this day, the contract has never been entered into the RTC's Contracting Activity Reporting System, which is intended to be a management tool to identify and report on contracts.

In its follow-up study on the contracting deficiencies discovered in RTC's Western Storm project, GAO stated: "Overall, we believe that RTC's mindset undervalued contracting, even though RTC extensively used private sector contractors to accomplish its mission. This mindset led to fundamental weaknesses in RTC's contracting system and permitted Western Storm to occur."[5] We share this view. We have repeatedly reported that deadlines to sell took precedence over contracting and other procedures intended to ensure efficient, economical, and prudent operations.

This same attitude was prevalent in several other prior RTC initiatives, such as RTC's information management systems efforts and one of its largest auctions. We have been issuing reports on these and similar endeavors since May 1991. For each of these costly initiatives, we have reported to senior management similar deficiencies in planning, contract solicitation and award, and contractor oversight. Correcting these deficiencies could save RTC millions.

Our work on this contract demonstrates again that RTC's efforts have fallen short of what is necessary to prevent unnecessary situations and wasteful spending from occurring. It is the responsibility of the Senior Vice Presidents to ensure that all relevant parties are involved in any contracting effort, that policies and procedures and the delegations of authority are adhered to, and that costs are identified and contained to the maximum extent possible. Furthermore, RTC management has not adequately implemented a number of our recommendations related to contracting. In the case of Western Storm, our report was issued in March 1992, but four recommendations remain unresolved.

CONCLUSION

Mr. Chairman, it is unfortunate that I have to be here today to report on what was clearly an avoidable series of events. RTC has contracting policies and procedures that, if followed, would protect the Corporation's interests. The events that I have recounted to you today are a case study of a deadline driven organization and what can and will take place in such an atmosphere. If this deadline driven atmosphere is not tempered with prudent planning and serious attention to cost containment and accountability, I can assure you that I will be before you, or other congressional committees, to again report on problems such as these.

Mr. Chairman, this concludes my statement. I will be pleased to answer any questions you or the Members of the Subcommittee may have.

PREPARED STATEMENT OF ALBERT V. CASEY

Good morning, Mr. Chairman and Members of the Subcommittee. I welcome the opportunity to appear today to address the various contracts entered into by the RTC as it has attempted to resolve HomeFed Bank, San Diego, California. As requested, I am accompanied today by William Roelle, Paul Ramey, Ann Hewitt, Gordon Diachenko, and Karen Szymanski. In addition, senior RTC contracting officers are present to answer any questions you may have on this matter.

Before I begin detailing the genesis of this contract, how it fit into our overall approach of dealing with HomeFed, and how the contract was awarded and monitored, I would like to make three points.

First, the RTC recognizes the importance of contracting. We are greatly concerned about the problems exposed by Western Storm, which the full Governmental Affairs Committee examined last spring, and many improvements and contracting safeguards have been established. I will cover these improvements in greater detail later in my testimony, but they are:

[4] The November bill covered costs through September 30, 1992.
[5] GAO/GGD–93–8R, *RTC Western Storm Follow-up*, December 4, 1992.

- A total revision last June of our Contracting Policies and Procedures Manual (CPPM), which streamlined roles and responsibilities;
- The establishment of a Washington contracts unit to assist in monitoring contract operations in our six major field offices. This group provides guidance to field contracting personnel on policy and procedure, and on all specific contract related issues, including interpretation of policy matters;
- New training courses for RTC employees on the CPPM;
- The development of a comprehensive system to independently verify our contractors' compliance with fitness and integrity regulations (most other Federal agencies rely on self-certification);
- One of the most aggressive systems in the Federal Government for identifying fraud by contractors;
- A procedure to allow contractors to file bid protests when the contractor believes that an award has not been made in accordance with RTC procedures;
- A competition advocacy program; and
- An active program of post award audits and reviews which provide independent reviews to ensure that the contractor is performing satisfactorily, has an adequate internal control environment, and is only billing RTC for work properly done under the contract.

Second, this case does not represent a system breakdown similar to that which occurred in the Western Storm project. While some mistakes were made in the issuance of the task order for this contract, it was competed; the contract work was extensively overseen by RTC employees; and the work product was responsive to the contract's requirements.

Finally, many developments beyond the control of the RTC influenced the evolution of this work. As will be clear from our testimony today, the RTC does not operate in a vacuum. All of our actions must be coordinated with other government agencies, private sector contractors, private investors, and the Congress itself.

In the case of HomeFed, a $12 billion thrift and the largest ever taken over by the RTC, our actions were affected radically by a DOJ subpoena of all HomeFed documents, the first blanket subpoena we have encountered to date, forced us to develop a whole new document management manual, and dramatically increased the cost and overall number of copies made. In particular, in order to satisfy RTC's operational need for original transactional documents (promissory notes, mortgages, certificates of deposit, loan agreements, etc.) the U.S. Attorney agreed to accept copies of transactional documents, while RTC would deliver originals of other documents and retain copies for itself. In order to permit the U.S. Attorney to use the copies as evidence (meeting the technical requirements of the Federal Rules of Evidence, maintaining the chain of custody, and providing complete, high-quality, and orderly copies) certain extraordinary measures were required in the copying process. The documents (some of which were valuable in themselves) had to be protected against loss or damage; HomeFed and the contractor selected for copying had to maintain a document control log; copying had to be supervised by a HomeFed employee with knowledge of the books and records of the institution; each copy had to be compared with the original; each copy had to be certified by the supervising HomeFed employee; and the documents had to be maintained in the same order in which they were kept in HomeFed's files.

Eventually, 10.4 million copies were made, which included the copies required by Justice, which, if stacked, would equate to over six Washington Monuments on top of one another. It is important to keep in mind that the actual copying of these documents represented a very small percentage of the cost. Quality assurance, management control, bar code development, logging and tracking, and other requirements, comprised this monumental task. Many questions have been raised publicly concerning an allegation that the per copy cost of the copying project was 67 cents. We believe that this statement has led to unfair and misleading analogies under these circumstances. It is highly misleading to say the cost of copying was 67 cents per page. The remainder of the cost for copying was the result of the elaborate document control and logging procedures PW was required to implement by RTC and the DOJ. It is inappropriate to compare those procedures with the customary operation of a photocopy machine.

Ultimately, the institution has not been resolved. The OTS placed HomeFed into RTC conservatorship on July 6, 1992. Given the lack of funding to support a comprehensive simultaneous institution and asset marketing strategy, assets were slated for individual RTC sales programs; and the institution to this day sits in conservatorship. Without funding, we are unable to close it.

I must note for the record that the Senate passed a funding bill on time last spring, but that, unfortunately, things broke down on the floor of the House. The

RTC appreciates your support for our funding last year Mr. Chairman. As you can imagine, the delay in funding has been disruptive to say the least.

Having said that, I must tell you that there are aspects of the Inspector General's preliminary findings which trouble me. We are close to having completely implemented all of the IG's recommendations at this juncture. Specifically, we have placed the Price Waterhouse HomeFed Contract under the direct control and administration of the Contracts Office in Washington. A month ago, PW voluntarily agreed to come in and renegotiate the labor rates contained in their approved AVR TOA. PW does not have any legal obligation to reduce its hourly rates retrospectively. Further, RTC does not question PW's entitlement to the fees charged for the services it rendered, nor as a matter of policy does RTC question PW's entitlement to charge contractual category rates for purchased labor. Accordingly, the offer by PW to adjust its rates retrospectively is considered a purely voluntary refund by a responsible RTC contractor. Both RTC and PW considered these negotiations appropriate in light of the extensive increase in the volume of copies required to satisfy all parties which resulted in a quadrupling of the initial cost estimate. We are in the final stages of negotiations at this time. This information was communicated to Secretary Bentsen in a letter dated February 16, 1993. (See Exhibit A).

After the IG has presented me his final report, which we expect in March, I will submit to this Subcommittee our final response to the IG.

Mr. Chairman, my written statement will be divided into two sections to address the issues raised in your letter. The first section addresses how the RTC has improved contracting procedures in the past year. The second covers the issues raised by the Price Waterhouse contract for work at HomeFed.

I. RTC'S IMPROVEMENTS IN CONTRACTING IN THE LAST YEAR

Because FIRREA mandates that the RTC use private contractors to accomplish its mission, it is imperative for us to have a contracting process that responds to the dynamic needs of the agency. This process must ensure that adequate internal controls are present that will allow the RTC to monitor its contractors to ensure full performance at a fair price.

The Office of Contracts provides Corporation-wide contracting policies, procedures, and direction for the engagement of private sector contractors to assist in the management and disposition of assets acquired from failed thrift institutions. It ensures that requirements imposed by FIRREA and other applicable statutes, regulations and directives are fully represented in contracting policy, procedure, and guidance; that these are communicated to Headquarters and Field Offices; and that they are incorporated into contracting activities and followed to the fullest extent.

In general terms, these requirements include making efficient use of Corporation funds; maximizing the efficient utilization of the resources of the private sector; adopting and following standards of adequate competition and fair and consistent treatment of offerors; prohibiting discrimination in the solicitation and consideration of offerors; and periodically reporting contracting activities and statistics to Congress.

The RTC Contract Policies and Procedures Manual (CPPM), mandates specific contracting policies and procedures to establish uniform, timely and proper acquisition of goods and services that are requested or required by RTC Program Office personnel. The CPPM establishes procedures for the acquisition of goods and services at every stage of the contracting process, from presolicitation planning through solicitation, proposal evaluation, contract award, administration and closeout.

In order to acquire services on a timely and effective basis, different segments of the organization must work together in supporting the program mission of RTC by issuing, executing, and administering contracts. This requires a team effort of professionals from the Office of Contracts, Program Office, and Legal Services Division. Other offices involved in the contracting process are the Office of Minority and Women Outreach and Contracting (MWOB), Office of Contractor Oversight and Surveillance (OCOS), Office of Ethics and Office of Inspector General (OIG). Each of these offices play an important role in the contracting process.

It must be noted that our contracting procedures are under continuing revision to meet the changing needs of the Corporation, and to allow us to incorporate improvements based upon our growing experience with contractors. In this regard, I would like to describe some of the improvements which have been developed and implemented over the past year.

Revision of Contracting Policies and Procedures Manual

The CPPM was revised last June. New procedures were developed from information provided by the private sector, other U.S. Government Corporations, the Inspec-

tor General and the General Accounting Office. The revised CPPM which was reviewed by both GAO and the IG:

- defines roles and responsibilities for program offices, contracting officers, oversight managers, and legal counsel for all RTC contracts;
- ensures uniformity in contract awards and contract administration; and
- requires that trained, warranted contracting officers are the only individuals with authority to make contract awards, and that they have a continuing role to play in contract administration.

The CPPM is designed to be a dynamic document, and is revised and updated on a continuing basis.

Training in contracting Procedures

In order to ensure that all essential RTC personnel are trained in the CPPM, the RTC developed and presented a series of in depth courses which were designed to fully explain the contracting process. Two courses, one on the fundamentals of contracting and one on contract administration, were developed and presented to over 1,000 RTC personnel. These personnel, who were primarily contracting or oversight officials, were given intensive training on the contracting process. The training was designed to provide a common basis of knowledge in RTC procedures, and to develop a team approach to contract award and administration.

Background Investigations

The FIRREA creates very stringent restrictions upon contractors trying to do business with RTC. These restrictions, which are set forth in 12 CFR 1606, the RTC contractor fitness and integrity regulations, are designed to ensure that RTC does business with reputable contractors. Drawing upon the experience of other Federal agencies that have confronted contract fraud, we have developed an aggressive approach to screening out contractors who do not meet these standards. While most Federal agencies rely upon a contractor to self-certify compliance with agency regulations, the RTC, through the OCOS, has developed in the last year a comprehensive system to independently verify our contractors' compliance with our fitness and integrity regulations.

In order to be considered for an RTC contract, all contractors must certify their compliance with our fitness and integrity regulations. These certifications address the corporation, and its owners, officers and directors, as well as related entities and key employees. For all contracts over $50,000, the RTC conducts an independent verification of the accuracy of these certifications. This independent check includes:

—**credit checks,** in order to verify if the contractor is a debtor to a federally insured institution;
—**Dun & Bradstreet reports** to verify a corporations financial capabilities;
—**banking regulatory agency checks,** to verify if the contractor has been the subject of disciplinary proceedings;
—**investigations checks,** to determine if the contractor is under investigation by the RTC or other investigative organizations;
—**debarred bidders list,** to determine if the contractor has been barred from doing business with the Federal Government;
—**litigation checks,** to determine if the contractor is subject to litigation by the RTC or FDIC
—**special checks,** such as checks with the National Association of Securities Dealers, to determine if the contractor is the subject of disciplinary actions by other regulatory authorities.

In calendar year 1992, RTC conducted checks on over 2,000 corporations and 9,000 individuals to ensure compliance with our regulations.

Suspensions and Exclusions

The House Government Operations Committee recently issued a report urging Federal agencies to use their inherent authority to bar contractors for fraud and non-performance. The report concluded that most agencies do not use this authority, and the few which do overwhelmingly rely upon debarment actions which are based upon indictments and convictions for fraud.

The RTC has one of the most aggressive systems in the Federal Government for identifying fraud by its contractors and taking timely suspension and exclusion action for fraud. To date, the RTC has conducted over 600 investigations regarding fitness and integrity issues or contractor misconduct. These investigations are designed to document contractor fraud or other wrongdoing. Criminal information is referred to the RTC Office of Inspector General. The investigations are designed to allow the RTC to take timely suspension or exclusion action, or other contractual

actions. As a result of these investigations, the RTC has issued over 50 actions to remove contractors for fraud relating to our fitness and integrity process, or for submitting false claims on RTC contracts. Furthermore, because there have been relatively few criminal cases to date involving RTC contracts, most RTC actions are based upon administrative investigations and determinations of fraud. Because the Federal criminal justice process often takes years to adjudicate fraud, RTC cannot await the outcome of this process in order to take timely action to identify and remove fraudulent contractors. Our policies provide for swift action which allows the RTC to identify and remove contractors which seek to defraud the Corporation.

Furthermore, because the RTC is suing many major potential contractors for damages arising from their providing deficient services to now defunct financial institutions, last year, RTC established a policy of prohibiting contract awards to firms engaged in major professional liability litigation with RTC or FDIC. Such a policy enhances the integrity of our contracting process, and encourages contractors to acknowledge and settle their liability in a timely manner.

Reviews of Minority and Women-Owned Businesses

Because FIRREA encourages the use of minority and women-owned businesses (MWOBs), by RTC, we have developed an aggressive outreach program to identify and award contracts to qualified MWOB contractors. Our contracting process provides bonus consideration to contractors owned and controlled by women or minorities, and to contractors who agree to form joint ventures with MWOB contractors, or who award over 25 percent of their subcontracts to MWOB firms.

In order to ensure that good faith MWOB firms are not deprived of this opportunity, it is essential to have a program to guarantee that only legitimate MWOB firms are admitted into the program. Our Department of Minority and Women's Programs has developed a comprehensive procedure to verify the accuracy of MWOB eligibility certifications. All contractors which are seeking to do business with the RTC as MWOBs must submit a detailed certification of the contractor's organization and personnel. All such certifications will be reviewed by the Department of Minority and Women's Programs, prior to acceptance by the RTC. Any potential misrepresentations will be forwarded to OCOS for investigation, and criminal misrepresentations will be forwarded to the OIG. Over 20 such investigations have been conducted by OCOS to date.

In addition to documentary reviews, all MWOB contractors which will be awarded contracts in excess of $50,000 will also be subjected to an on-site review and verification, prior to contract award. This review is designed to ensure that minorities and women are indeed the owners of the company, and that such persons are in control of the company. Particular scrutiny will be given to joint ventures to ensure that MWOB firms are performing over 25 percent of the work, and are receiving compensation which is commensurate with their work. Potential misrepresentations will again be forwarded to OCOS for investigation. Furthermore, as part of its post award audit and review responsibilities, OCOS will conduct a review of the contractor's continuing compliance with the RTC's MWOB policies.

If it is determined that a contractor has improperly certified its MWOB status, the Department of Minority and Woman's Programs has developed a procedure to revoke such status. Such a decision can also lead to exclusion from all RTC contracts.

Bid protests

In order to ensure fairness in the process of making competitive awards, the RTC has developed a procedure to allow contractors to file bid protests when the contractor believes that an award has not been made in accordance with RTC procedures. Recently, the General Accounting Office and the General Services Administration Board of Contract Appeals, the organizations which handle bid protests in other organizations, issued decisions stating that they did not have jurisdiction to adjudicate bid protests from the RTC and FDIC. In order to ensure that all bid protests are fairly examined, the RTC has created a bid protest process in the CPPM. The process is under the direction of OCOS, an office which is independent from the Office of Contracts, and is designed to allow good faith bid protests to be addressed in a timely manner.

Competition Advocacy Program

Because FIRREA mandates that the RTC shall award contracts in a competitive manner, the RTC has sought to develop a contracting system which ensures competition at all important stages of the contracting process. In order to enhance this process further, the RTC has recently created the Competition Advocacy Program (CAP). The CAP, which is under the direction of OCOS, is responsible for:

—reviewing RTC procedures in order to identify and eliminate potentially non-competitive practices;
—reviewing all sole source or limited competition awards in order to prevent abuse;
—examining contract renewals or contract modifications which expand contracts in order to prevent noncompetitive practices.

In addition to these procedures, the CAP will also be responsible for producing a monthly RTC-wide contracting activity report. This report is designed to document RTC contracting activity, identify trends and non-competitive awards, and to provide senior RTC management with information regarding compliance with RTC contracting policies and procedures.

Post-Award Audits and Reviews

The post-award audit/review of a contractor's performance is a major factor in an effective contracting process. While contracting officers and oversight managers have a major role to play in day-to-day contract administration, major RTC contracts must also be subjected to an independent review in order to ensure that the contractor is performing satisfactorily, has an adequate internal control environment, and is only billing the RTC for work properly done under the contract.

For certain major RTC contracts, this independent audit/review is the responsibility of OCOS. The OCOS has developed in depth audit and review programs for many major RTC contracts. These review programs are then undertaken by independent public accounting firms, which are engaged by OCOS to review contractors which have been determined to be performing on high risk contracts. Based upon the work of the public accounting firms, OCOS issues reports to RTC management officials, who are responsible for taking timely corrective action.

Last year, OCOS conducted a review of major RTC contracting activities in order to assess high risk and vulnerable contracting areas. The OCOS was then provided with resources to conduct audits and reviews in the following areas:

—**Standard Asset and Disposition Agreements (SAMDA contracts).** Currently, there are over 180 SAMDA contracts awarded to over 60 contractors. In calendar year 1992, OCOS conducted an internal control review of all major SAMDA contractors. The OCOS has also developed a standard annual review program for all SAMDA contracts, which will ensure that the performance and expenses of all SAMDA contractors is reviewed on an annual basis. A new audit program, designed to support RTC's accelerated termination of these contracts is also in development. In addition to the 180 SAMDA reviews which will be conducted by OCOS, the OIG has also committed to reviewing five SAMDA contracts.
—**Property management contracts.** The RTC and SAMDA contractors employ numerous property management firms to operate RTC owned or controlled properties. These contracts are highly vulnerable to abuse. The RTC has developed a review program for these contracts, and has commenced a review of over 350 property management contracts. One completed review identified potential fraud, and the contractor has agreed to reimburse over $200,000 to the RTC. The RTC OIG has also agreed to review 30 property management contracts.
—**Mortgage loan servicers.** The RTC has contracted with 120 master loan servicers. These servicers are responsible for servicing 1.8 million performing and non-performing loans, with an estimated value of $85 billion. The OCOS, working with program management, has developed a review program which will conduct a review of all 120 major loan servicers. The OIG has also agreed to review five loan servicers. To date, OCOS has completed reviews of three major loan servicers.
—**Seller Financing.** At the request of program officials, OCOS has designed an annual review program for the RTC's Seller Financing Program. The program will provide for an annual review of contractors engaged in commercial real estate loan underwriting for RTC to ensure compliance with all major policies and procedures.
—**Due diligence.** The OCOS is in the process of developing a comprehensive program to review due diligence contractors. Currently, the RTC has approximately 50 major due diligence contractors, receiving over $100 million for performing due diligence services. One review conducted by OCOS identified a pattern of fraud by a due diligence contractor, and recommended recoveries of over $50,000.
—**Billing reviews.** The RTC is also responsible for conducting independent reviews of contractor billings, to ensure that contractor payments are only ap-

proved for work properly performed. Costs associated with professional services, travel and other direct services are examined to ensure that costs were actually incurred, properly calculated and are properly billed to the contract. As a result of these reviews, OCOS and the Office of Contracts are working on a complete revision of the RTC's contractor travel cost reimbursement policy, in order to guarantee greater controls in this area.

—**Termination reviews.** These are reviews performed on major RTC contracts at time of termination. The reviews are designed to examine contractor costs over the life of the contract, in order to allow the RTC to address any final claims with the contractor.

II. THE PRICE WATERHOUSE/HOMEFED CONTRACT

A. *The RTC's HomeFed Strategy*

The RTC and OTS began to discuss HomeFed as a potential Accelerated Resolution Program (ARP) candidate in a series of meetings at a staff level in February 1992. The ARP is a program that had been developed jointly between the RTC and the OTS to eliminate the time that a failing institution spends in the traditional RTC conservatorship program. It is generally agreed that the longer an institution spends in conservatorship, it inversely impacts the value of the franchise, and ultimately the larger the cost to the taxpayer for the resolution of the institution.

On February 24, 1992, RTC resolutions and ARP staff, plus counsel, met with OTS and HomeFed's senior management in San Diego in order to determine whether, in RTC's view, HomeFed was an acceptable ARP candidate or should be placed directly into conservatorship. Over the following 2–3 weeks, the RTC agreed with the OTS that HomeFed was an acceptable ARP candidate.

On March 16–17, an RTC working group met with OTS and HomeFed senior management for a second time in San Diego. At this meeting, RTC resolutions and asset sales personnel, together with their counterparts at HomeFed, began the evaluation of how HomeFed should be marketed as an ARP. RTC staff specifically evaluated whether HomeFed's asset information systems seemed adequate for an accelerated resolution using the Cooperative Institution Marketing (CIM) process.

Marketing HomeFed as a CIM

The first institution marketed under the CIM program was the $1.2 billion Investors Federal Savings Bank of Richmond, Virginia (Investors). The Investors pilot CIM program resulted in a great success for the RTC, with both the franchise and nearly all of the assets being sold on the same day with excellent returns. The CIM program demonstrated that it maximized competition from both franchise and capital markets buyers.

Valuation and due diligence for assets marketed under the CIM program involve performing complete due diligence on all assets which are then stratified into marketable pools. An Asset Valuation Review (AVR) is then prepared to value remaining assets. An AVR is the RTC's traditional approach to the analysis of the assets of a conservatorship prior to its resolution.

Feasibility of Action Plan Studied

On Friday, April 3, 1992, HomeFed Bank, FSB, of San Diego, California, was placed in the Accelerated Resolution Program (ARP). Kenneth Leventhal & Co. (KL) and financial advisors Goldman Sachs (advisor on the HomeFed Bank assets) and Morgan Stanley (advisor on Home Capital Corporation and related real estate development subsidiaries and affiliates) were retained to perform a preliminary 30-day review of the feasibility of completing a CIM/ARP by September 30, 1992 (a deadline imposed by the OTS).

The financial advisors and KL reviewed their recommendations with the RTC on May 1, 1992; a meeting was held with OTS on May 4, 1992; and the decision was made to move ahead with the marketing of HomeFed.

Contract Parameters

In anticipation of marketing the institution, contractors were solicited during the April feasibility study period to perform due diligence and manage the overall due diligence process on the more than $12 billion in assets.

The sheer number of assets at HomeFed dictated changes from the process used at Investors. More due diligence firms were needed than had been necessary at Investors. Due to the greater complexity of the sale preparation process, general oversight of the contractors and tracking of the assets were essential as individual assets were assigned to marketable pools or reassigned to pools based on recommendations of the financial advisors and the due diligence contractors. Also, the ongoing reconciliation of the assets to the general ledger of the institution to determine

which assets would remain for valuation, and reconciling the overall asset evaluation that would be utilized for the cost test.

At Investors, the approach to the management of the due diligence was to combine the due diligence and AVR functions and have the selected contractor (Grant Thornton) provide any additional administrative functions that might arise. Two primary benefits resulted from this approach. First, the AVR costs were greatly reduced since most all the valuation information came from the 100 percent due diligence. Second, duplication of functions was eliminated. In an institution the size of Investors ($1.2 billion), this was a simple task. In contrast, at HomeFed, which was approximately ten times larger, contracting with a single firm to perform all of the functions was not feasible. Therefore, the RTC initially planned to contract with several due diligence firms, but hire a single organization to perform all the necessary administrative functions in the same manner as the due diligence/AVR contract at Investors. This single organization came to be known as a Management and Continuity Contractor (MCC).

After discussions with RTC contracting, legal and management staff, it was clear that the RTC did not have a current task order agreement (TOA) that specifically addressed all the functions of an MCC. Therefore, an approach had to be developed that would provide for this function in the allotted time frame. It was determined that a responsible and knowledgeable firm was needed for this segment of the work. The most likely candidate for that was an AVR contractor, which is responsible for, among other things, the reconciliation to the institution's general ledger.

Contractor Selection

The issue at hand involves a Task Order issued by the Program Office under the Asset Valuation Review Task Order Agreement (AVR TOA) 700–91–0072. As a result of the OIG's review, further inquiry has been made into the contracting process for the award of the AVR TOA and the task order.

As background, a TOA is a contracting method intended for recurring requirements, under which contracting for future needs is expedited. The Program Office identifies recurring needs, prepares a general statement of work for the required services and submits a Request for Contracting Services (RCS) to the contracts office. Firms are formally solicited and agreements are established with one or more firms that have the qualifications and capability to meet anticipated future needs.

When future needs covered by the TOA arise, the Program Office prepares a specific statement of work and submits a request to the contracting officer. An abbreviated competitive solicitation process occurs with the contractors previously awarded a TOA. A task order is awarded to the successful firm which delineates the specific statement of work and all associated fees and related expenses.

Procedures for establishing TOAs are documented in the CPPM. The minimum requirements for TOAs include a specific term not to exceed one year, with options for not more than two one-year extension terms, detailed terms and conditions, general statement of work, and labor rates when appropriate for the future services.

The AVR TOA was competed and awarded pursuant to the CPPM based upon the team work and interaction of many internal RTC offices. The contractor's duties under the TOA include conducting on-site inventory, analysis, and valuation of assets in the portfolios of an entire savings and loan institution. The Office of Contracts conducted the AVR TOA solicitation, proposal receipt and evaluation, and contract award strictly in accordance with the CPPM.

Approximately 900 solicitation packages were distributed to firms interested in submitting proposals for AVR work. Eighty-three proposals were received. These proposals demonstrated the firms' expertise to perform the specific services stated in the solicitation. The proposals also included standard labor rates for various categories of work performed. A nine person evaluation team was convened with representatives from the program office, contracts office, legal division and MWOB office. All proposals were evaluated strictly in accordance with the solicitation's evaluation criteria. A competitive range was established and as a result of the Best and Final Offer proposal evaluation, 46 offerors were awarded an AVR TOA.

The AVR TOA was processed in according to the following milestone events:

Solicitation Release 11/19/91
Pre-Bid Conference 12/04/91
Proposals Submitted 12/30/91
Proposal Evaluation Commenced 1/22/92
Evaluation Completed 2/3/92
Determination of Competitive Range 2/13/92
Request for Best and Final 2/18/92
Final Evaluation Completed 2/24/92
Pre-Award Approvals Obtained 3/9/92

Contract Award 3/16/92
Debriefings 4/1/92

Prior to formalizing the procurement of this AVR TOA, the RTC's Resolutions Office was securing these services under existing contracting procedures at that time. This exception to standard procedures, was authorized by the former Executive Director and Senior Vice President for Planning and Corporate Relations. The exception was necessary to allow for a timely analysis of potential losses within RTC institutions for the purposes of resolving the thrifts. This task order at HomeFed was the first issued under this new TOA. While this task order did meet the guidelines for competition, it did not follow the procedures for processing the Statement of Work.

The RTC's program offices approach to contracting for HomeFed was to compare the lists of due diligence contractors to the list of AVR contractors and solicit those firms experienced in both areas with large institutions. The five firms that appeared on both the due diligence and asset valuation TOA's were solicited under she AVR TOA. This provided the RTC with sufficient choices to compare costs and specific capabilities. Two firms reported conflicts of interest in regard to the institution and were disqualified. Of the remaining three firms, Grant Thornton was selected after a review of the technical and cost proposals.

After Grant Thornton (GT) had been on site for approximately one week, it was apparent that GT was unable to staff up and begin work on a scale sufficient to meet the September 30 timetable imposed by the OTS. It became an immediate concern that some of the same Grant Thornton staff who provided the experience from the Investors job would be moving to HomeFed at a critical time in the Investors project, which was unacceptable to the RTC. After discussions with senior RTC personnel, senior partners of Grant Thornton were convinced to accept a much smaller portion of the HomeFed work and to withdraw from all aspects of due diligence coordination with the various contractors.

Out of the competitive solicitation process, the RTC was left with two alternative contractors: Price Waterhouse (PW) and Kenneth Leventhal (KL). PW had been second in the competitive selection process, and was awarded this task.

PW's role under the task order was to be a Management and Continuity Contractor (MCC). This function was a new task developed during the course of the Investors CIM and it was initially estimated by RTC staff that this project would cost less than $5 million. As required by the RTC, within 30 days, PW provided its first projected final cost, estimating, among other things, Department of Justice subpoena documentation requirements. PW continuously updated its budget throughout the life of the project. The initial projections, given on June 17, ranged between $21.6 and $23.1 million.

The program offices draft of the task order, admittedly, was not in accordance with the CPPM. In hindsight, given the expanded volume of work required of Price Waterhouse as a result of the grand jury subpoena, it would have been wise to renegotiate the terms at the time the scope of the contract was expanded. In addition, it is clear that the contract should have had a "not to exceed" clause in it that would have set a limit on expenditures under the contract. This would have triggered further review when this limit was reached, and an affirmative decision to spend more funds would have had to be made in order to proceed further. Our contracting procedures require such clauses.

Department of Justice Subpoena

As previously discussed, the scope and cost of the job dramatically increased when the RTC's discovered on May 15 the Department of Justice's subpoena which was in place at the institution, but never relayed by the OTS to the RTC. The DOJ subpoena required the creation of detailed procedures to control the handling of original documents during various copying and due diligence contractor review processes.

In total, 18 different sets of procedures were developed (pursuant to over a dozen meetings), each tailored to a specific asset grouping and/or copying/review site. While all 18 procedures are understandably voluminous, I am attaching selected portions to illustrate the magnitude of these added requirements. Exhibit B is the procedures for the transfer of documents between HomeFed/Great Western Buildings. Exhibit C is a summary of Copy Center Procedures. Exhibit D is the collateral copy and certification process.

The number and complexity of the Justice Department procedures (which resulted in a manual entitled "Resolution Trust Corporation Accelerated Resolution Program for HomeFed Bank: Document Control Procedures") imposed more work and higher costs including:

- a greater than normal degree of training and supervision;

- the creation of a department within PW's Document Management team called "Compliance," which was staffed by four PW employees and a part-time PW partner with internal audit expertise;
- a significant amount of manual logging and sign-offs between copying steps. Each individual handling original documents or even being in the vicinity of original documents was required to sign in (giving both name and social security number) and to present a color-coded identification badge. Furthermore, original files were logged and tracked throughout the copying process. Depending on the particular copying location, *the cost for logging ranged between 14 percent and 28 percent of total copying costs;*
- the development of nine express copy centers in close proximity to the due diligence contractor's reviewers to restrict transport of original documents as opposed to centralization of copying which would have maximized operational efficiency and lowered costs;
- a quality assurance process that involved PW employees performing a 100 percent page check on 20 percent of the photocopies made in the major copy centers. As the level of photocopying increased during the project, the support functions of the reproduction process (e.g., shipping, inventory control, library, due diligence liaison, personnel, etc.) required additional PW employees;
- a logging process for the control of original files that required PW staff to sign for each loan file when the file moved between parties (e.g. HomeFed, RTC Investigations, due diligence contractors, outside vendors, Homecap, etc.). One loan could have as many as five different types of files. Each file moved between parties two to eight times. Records of the logs were provided to representatives of the institution and DOJ;
- the requirement that Homefed had to deliver files through PW personnel who would then deliver files to due diligence contractors. PW incurred document handling costs that would have been avoided if the procedures had permitted direct transport to the due diligence contractors; and
- the requirement that PW personnel be present during the transport of original documents between the HomeFed and Great Western buildings (two buildings next-door to one another in downtown San Diego). The procedures also specified that PW personnel transport over-sized and bound materials to an off-site commercial copying vendor and remain at the vendor to monitor the copying of the documents. In a less stringent environment, temporaries would normally perform these functions.

Contractor Oversight and Cost Control

Project management included regularly scheduled written reports and meetings, including, but not limited, to: 1) weekly written reports submitted by each financial advisor; 2) weekly conference calls with RTC project management and financial advisors; 3) weekly meetings with HomeFed asset managers and financial advisors; 4) bi-weekly meetings with OTS on-site examiners; and 5) daily meetings with all due diligence contractors' on-site management representatives. Periodic meetings were scheduled as necessary with the appropriate contractors.

Daily activities of RTC on-site oversight personnel included attendance at meetings in conjunction with PW partners and staff; visits to PW working locations and interface with PW, the financial advisors, and due diligence contractors.

Beginning on May 18, daily meetings were held on-site at 5:00 p.m. with PW, all due diligence team leaders, the financial advisors and RTC on-site personnel. The purpose of the daily meetings was to coordinate the activities of PW and all the due diligence contractors to ensure maximum operational efficiency of the overall project. Status reports were required of all contractors, and RTC directed and controlled all activities of all contractors. As an example, a copy of the daily report for July 1 is attached as Exhibit E. Additional meetings were scheduled as necessary to coordinate activities of individual asset specific teams. Such meetings often were scheduled several times a day for different topics, and included PW representatives to the extent that the meeting agenda topics related to PW's scope of services.

Project management responsibilities for the HomeFed project have included:

1) Project planning and coordination (across all contractors);
2) Contractor supervision including:
   - Review of contractor's organizational plans and staffing;
   - Review of contractor's project plan;
   - Periodic progress reports of contractor production (daily progress report by file count in stages of production); and
   - Supervision of quality control of due diligence contractors in conjunction with financial advisor;

3) Coordination with institution;
4) Identification and resolution of operating problems relating to project;
5) Coordination with other RTC departments:
- Franchise marketing (RTC Department of Resolutions);
- Affordable Housing;
- Legal (PLS, and Asset Sales);
- Securitization;
- Field RTC office (California office);
- Asset Operations;
- Contracting;
- Transaction Oversight;
- National Marketing (Advertising); and

6) Coordination of delivery of appropriate information to due diligence contractors to supplement loan file information including:

- Collateral files;
- Tax and insurance information on loans and REO;
- Appraisals;
- Servicing tapes; payment histories;
- Title updates;
- Environmental reviews (by property);
- Legal due diligence; and
- Closing procedures.

As previously mentioned, cost controls on the PW contract were implemented June 17, 1992, after PW's role was precisely determined and budget estimates were reviewed. This included a presentation to the RTC detailing the cost projections of the project by functional category including: Due Diligence Interface, Systems Development, Document Management, Project Management and Administration, War Room, and Due Diligence Quality Control. Subsequent budget meetings have been held on a regular basis. In these meetings, PW is required to justify all costs to the RTC as well as work with the RTC to determine ways to reduce costs. PW provided bi-weekly status reports to RTC detailing the activities through the previous two weeks. Fee and expense bills are submitted bi-weekly and are reviewed in detail by RTC on-site personnel prior to final submission to Washington.

Conclusion

In regard to the Office of Inspector General's Management Letter dated December 21, 1992, we have taken numerous steps to address the Letter's recommendations. As previously indicated, we have placed the responsibility for these contracts under the control and administration of the Contracts Office. Future task orders will only be issued in accordance with the approved CPPM. The Contracts Office is finalizing an amended statement of work for the current project. As previously mentioned, we are negotiating new billing rates with PW as well as a reconsideration of past rates in view of the expanded size of the engagement. PW has provided us with their full cooperation in this endeavor.

Looking back at how the RTC handled what is still an ongoing resolution process at HomeFed, one can determine mistakes may have been made. However, it is important to keep any missteps in perspective. For the past six months that HomeFed has lanquished in conservatorship. Arguably, creative efforts at the CIM sales strategy could have resulted in a state-of-the-art resolution that would have resulted in the lowest cost to taxpayers and the return of all assets to the private sector in the shortest amount of time.

RTC and its contractor, PW, responded well to unforeseen challenges presented by the Department of Justice subpoena and the lack of adequate loss funds to finish the job.

Having said that, I want to assure you that the state of RTC contracting has improved since last year's hearing. I can also state that your oversight efforts have helped the RTC focus on critical management and related issues.

I hope that this information answers your concerns and we stand ready to provide any additional information or answer any additional questions.

Attachment

Attachment

May 13, 1992

Ward Rivenburg
Price Waterhouse
1801 K Street, NW
Washington, DC 20006

Re: Task Order WRO- 075 - HomeFed, Federal Savings Bank
CONFIRMATION OF MODIFIED TASKS AND RESPONSIBILITIES

Dear Mr. Rivenburg,

Following the restructuring of this Task Order, we wish to reconfirm the selection of your firm to perform the following tasks and responsibilities:

Due Diligence Coordination:

- Arrange for copying of files and fiche sufficient to start due diligence contractors on May 11, 1992.

- Arrange for copying of investor information.

- Act as interface between the due diligence contractors, OTS, and RTC representatives both those onsite and those in the national and regional offices.

- Act as a clearinghouse for all requests to Bank personnel.

- Prepare an overall engagement schedule and monitor progress.

- Record and distribute minutes of daily due diligence contractors' meetings.

- Monitor "hand off" of assets between contractors.

- Allocate resources and establish priorities for requests of various due diligence contractors.

- Communicate overall plan and changes.

- Prepare weekly progress reports.

- Implement the cut-off date for information to be included in investor files.

Attachment

Attachment

Wrap-up and Investor Support:

- Provide overall assistance and analysis for financial advisors.

- Prepare and maintain schedule of personnel for each due diligence contractor required to staff "war room".

- Organize and set up a "war room", maintian library checkout system and control of documents.

- Assist RTC and financial advisors through closing and final delivery of product.

We agree to the hourly rates specified in your proposal. Fees and expense invoices, fully documented, should be submitted twice per month.

The Performance Period of this contract began May 4 and may extend as long as the end of this calendar year. Contractor will be expected to appropriately staff the task until all of the above items are satisfied.

Sincerely,

J. Paul Ramey
Director,
Office of Field Resolutions

Concurrence:

for Price Waterhouse

Exhibit A

RESOLUTION TRUST CORPORATION
Resolving the Crisis
Restoring the Confidence

February 16, 1993

Honorable Lloyd Bentsen
Secretary of the Treasury
Washington, D.C.

Dear Mr. Secretary:

I have received your letter of February 15, 1993. The letter referred to Inspector General (IG) and GAO examinations of fees paid to contractors in connection with the conservatorship of HomeFed Federal Savings Bank (HomeFed). We have not received any reports from GAO pursuant to its audit of RTC activities related to HomeFed. The IG has reported to us on only one audit related to HomeFed contracting--that of the Price Waterhouse contract for managing and coordinating due diligence activities, investor support services, and document and file management which has recently been widely reported on in the press. The IG audit has yet to be completed and, while we received a progress report dated December 21, 1992, we have not received any written communication on this matter since.

Your letter urged that we conduct a thorough investigation of all HomeFed contracts and I have already taken steps to do so. However, it is important to note, that while the IG progress report identified some problems with the Price Waterhouse contract, at this time, we have no basis to conclude that much of the total of $100 million of fees that are anticipated to be paid to contractors with respect to HomeFed "represent excessive costs and excessive mark-ups by contractors" or that "many [of the HomeFed] contracts appear to lack satisfactory control or limits."

With respect to the specifics of the Price Waterhouse contract, clearly some mistakes were made. However, it is important to place this contract in its proper context. First, the contract was let pursuant to a basic ordering agreement that was the result of the competitive bidding process. That is, while the pricing in the contract may appear excessive, it was determined by the competitive process.

Second, as a result of a grand jury subpoena, the scope and complexity of the work was expanded beyond that originally contemplated by either the RTC or Price Waterhouse. In

Exhibit A

particular, in order to satisfy RTC's operational need for original transactional documents (promissory notes, mortgages, certificates of deposit, loan agreements, etc.) the U.S. Attorney agreed to accept copies of transactional documents, while RTC would deliver originals of other documents and retain copies for itself. In order to permit the U.S. Attorney to use the copies as evidence (meeting the technical requirements of the Federal Rules of Evidence, maintaining the chain of custody, and providing complete, high-quality, and orderly copies) certain extraordinary measures were required in the copying process. The documents (some of which were valuable in themselves) had to be protected against loss or damage; HomeFed and the contractor selected for copying had to maintain a document control log; copying had to be supervised by a HomeFed employee with knowledge of the books and records of the institution; each copy had to be compared with the original; each copy had to be certified by the supervising HomeFed employee; and the documents had to be maintained in the same order in which they were kept in HomeFed's files. A copy of the correspondence between the RTC and the Department of Justice (DOJ) including detailed instructions on document management is enclosed.

For all these reasons, HomeFed's business records could not simply be bundled up and delivered to a copying service. RTC was obligated to hire a reliable firm, experienced in handling valuable documents and in maintaining complete records for evidentiary purposes. Price Waterhouse was able to meet the needs of RTC and the U.S. Attorney's Office. The costs referred to in news reports and by the IG are the result of the extraordinary document handling process described above.

In hindsight, given the expanded volume of work required of Price Waterhouse as a result of the grand jury subpoena, it would have been wise to renegotiate the terms at the time the scope of the contract was expanded. In addition, it is clear that the contract should have had a "not to exceed" clause in it that would have set a limit on expenditures under the contract. This would have triggered further review when this limit was reached and an affirmative decision to spend more funds would have had to be made in order to proceed further. Our contracting procedures require such clauses. We received the IG progress report indicating that such a clause was missing from the Price Waterhouse contract in late December, and by early January we had made some organizational changes to assure that such anomalies were not repeated.

While the contract did not have a ceiling, the contract did provide that the contractor provide the RTC with an estimate of fees within 30 days of commencing work on the contract. By this

Exhibit A

time, the DOJ requirements were known and the estimate was $23 million. The RTC could have cancelled the contract at that time and did not. Current estimates (before any renegotiation of hourly rates) are that the contract will cost $25 million. Through January, our expenditures under the contract have been about $22.5 million.

We have contacted Price Waterhouse, and I am pleased to report that they have agreed to negotiate new billing rates going forward and to reconsider their past billing rates in view of the expanded size of the engagement. Such negotiations are currently taking place.

Aside from contracts pertaining to HomeFed, your letter addressed two issues with respect to audit follow-up and internal controls. First, you requested that the RTC adopt a comprehensive system for follow-up on findings and recommendations made by GAO and the IG. As I explained at the last Oversight Board meeting, the RTC has acquired a report inventory system from HUD which it is presently modifying to use as a tracking system. In addition, we are working closely with the IG on preparing a written directive that is similar to OMB/Circular A-50. A summary of the status of all open IG items is enclosed.

Second, you requested that the RTC "evaluate and report upon its internal accounting and administrative control systems in accordance with 31 U.S.C. 9106 and Policy Number 18." I am pleased to inform you that the RTC is already in compliance with 31 U.S.C. 9106 and with Policy Number 18. In addition, despite the fact that it is not covered by the Federal Manager's Financial Integrity Act (FMFIA), prior to the December 1, 1992 Oversight Board meeting, the RTC agreed to provide a statement of assurance with regard to accounting standards and internal controls as prescribed by OMB for agencies reporting under FMFIA when it reports on 1992, under the CFO Act, by March 31 of this year.

Sincerely,

Albert V. Casey

Enclosure

Exhibit B

PROCEDURES FOR THE TRANSFER OF DOCUMENTS BETWEEN
HOMEFED/GREAT WESTERN BUILDINGS

1. PW will verify that the documents in the boxes received from HomeFed/Great Western agree with the transfer log (see Attachment 1).

2. The transfer log will be signed by 1) the HomeFed/Great Western librarians; 2) the PW representative; and 3) the delivery person (a Grant Thornton employee). These signatures will attest to the accuracy of the transfer log.

3. In addition, for ACFR files, the PW representative will sign and date a CFR master log indicating that said files were received by PW.

4. The PW representative will accompany the files between buildings. This involves staying with the files while they are: 1) moved from the origination point to the delivery van; 2) loaded in the delivery van; 3) transported in the van between buildings; 4) unloaded from the van; and 5) transferred to the destination point.

5. If more than one van trip is required, a PW representative will remain with each set of files at all times.

6. Upon arrival of the files at the destination point, the PW supervisor will verify the files delivered and sign the Transfer Log signifying the accuracy of the Transfer Log.

7. A Grant Thornton employee will be used to drive the transport.

8. Copies of Transfer Logs will be turned over at the end of each week to Kelly Stimpson and/or Mike Hargrove, Great Western Building, Floor B-2 (699-7898).

9. HomeFed will spot check at any time to ensure compliance with these procedures.

June 14, 1992

5. The temporaries quality control all finished copies with quality assurance (QA) performed by PW. The manilla file folders containing copies are labelled with the loan number and descriptive information from the original file folder. They then are rubber banded together by loan number ad placed sequentially in banker's boxes provided by the due diligence contractor. The contents of the boxes are clearly recorded on the outside of each box, along with loan number and number of individual files per loan.

6. After copying and QA is completed, the original documents and copies are logged back to the due diligence contractor, using the log form (Exhibit XIV). A copy of the log form is given to the due diligence contractor showing sign-in and sign-out of the original files.

7. The log form is kept in a folder labelled "control copy" and is picked up each evening and returned to the PW office on the second floor of the HomeFed building.

Summary

The overall flow of the files through the centers is designed to maintain control of the original files, ensure quality of the copies and facilitate timely movement of the files through the copying process. The primary control mechanism is the tracking log maintained by each department which monitors movement of files at every stage. The complete review of each copy of the files by the quality control department maintains the integrity of the duplicated file. This, coupled with the overall controlled environment, will ensure complete integrity of the original files as well as ensure the quality of the files provided to the due diligence contractors.

Exhibit C

SUMMARY OF COPY CENTER PROCEDURES

Price Waterhouse (PW) has been engaged by the RTC to perform and control the reproduction of HomeFed asset files for the purpose of providing due diligence contractors with copies of said files. The reproduction process is being performed by PW in a controlled environment surrounding the original files to help ensure the quality of copies provided to the due diligence contractors. This document summarizes procedures being used by PW during the engagement.

Location of Major Copy Centers

HomeFed Building - basement Blue Room/Vault)
Great Western Building - third floor
Great Western Building - tenth floor
Sacramento HomeFed Building
Dallas Nationwide Capital Building

Location of Express Copy Centers

HomeFed Building - first floor
HomeFed Building - third floor (Suite 325)
HomeFed Building - fourth floor (Suite 405)
Great Western Building - fourth floor
Great Western Building - twelfth floor (corporate lending)

Major Copy Centers

The PW copy process is broken into four distinct stages: (1) the preparation stage (2) the copy stage (3) the reassembly stage and (4) the quality control/quality assurance stage. In the preparation stage the files are checked out and prepared for copying. In the copy stage the files are reproduced. In the reassembly stage the files are reassembled into the exact state in which they were received from HomeFed. In the quality control stage the quality of the copy of each file is evaluated prior to delivery to the due diligence contractor. Within each stage of the process PW has implemented procedural controls in addition to maintaining physical control over the environment.

June 14, 1992

Preparation Department

The process begins by PW requesting files, based on the due diligence prioritization, from HomeFed. Transfer of files is accomplished using the Transfer Log (see Attachment 1). In the case of Asset Control File Room (ACFR), the ACFR also uses the Loan File Copy Status Log (Exhibit I) when it logs files out to the supervisor of the preparation department. The preparation supervisor verifies all files contained on the log are actually in the boxes being received. The preparation supervisor then signs the log maintained by the HomeFed file room designating which files were received by PW, and the files are removed to a staging area within the HomeFed file room. The files are then transported to the preparation area and the supervisor prepares the Preparation Department Tracking Log (Exhibit II) indicating the files which have been received from the file room. As soon as the files are received in the preparation area, each box is labeled as to its contents. A Price Waterhouse Transfer Observation Person (TOP) participates in every transfer of files.

The files are then assigned to the various preparation technicians according to work load. As the files are assigned, the supervisor indicates on the Preparation Department Loan Assignment Log (Exhibit III) which preparation technician was given each file as well as the time it was assigned. The preparation technician then prepares the file for photocopying. This process involves removing the various types of fasteners from the files and replacing them with paper clips and rubber bands. The type of replacement fastener indicates the original type of fastener removed so the file can be exactly reassembled after copying. Upon completion of the preparation process, the file is placed back in the box in the exact order it was received. After the file is placed back in the box, the supervisor indicates the completion time on the tracking log. The box is then moved to the preparation department's final staging area.

Copy Department

Together, the preparation supervisor and the copy supervisor identify and log all files that are transferred from the preparation area to the copy area. The PW TOP participates in this process.

The copy supervisor prepares the Copy Department Tracking Log (Exhibit IV) indicating which files are about to be removed to the copy department staging area. The copy supervisor and the preparation supervisor verify the files being moved and they each sign the other's tracking log. The copy supervisor's signing of the preparation supervisor's tracking log indicates the file is no longer the responsibility of the preparation department. The PW TOP observes and assists with this transfer and initials the receipt log. The files are then moved into the copy department staging area. The copy supervisor then assigns the boxes to the copy stations based on work load of the individual stations. The copy supervisor indicates on the Copy Department Loan Assignment Log (Exhibit V) which files were delivered to each copy station and the time assigned.

The copy technician then makes two copies of each document, a "shadow copy" and a "microfiche copy". The shadow copy will ultimately be provided to the DDCs; the fiche copy will eventually be microfilmed for the RTC archive. After the copying is complete the copy technician replaces the fasteners exactly as they were given to him. The copy technician then rubber bands the copies to the originals. The original and the copies are then put back into the boxes. To the extent additional box space is needed new boxes are made and labeled. Upon completion the copy supervisor notes the time of completion and the files are moved to the copy department's final staging area.

Reassembly Department

Together, the copy supervisor and the reassembly supervisor identify and log all files that are transferred from the copy area to the reassembly area. The PW TOP participates in this process.

The reassembly supervisor prepares the Reassembly Department Tracking Log (Exhibit VI) indicating which files are about to be moved to the reassembly staging area. The reassembly supervisor and the copy supervisor verify which files are being moved and each signs the other's tracking log. The reassembly supervisor's signing of the copy supervisor's tracking log transfers the responsibility from the copy department to the reassembly department. The PW TOP observes and assists with this process and initials the receipt log. The files are then physically moved to the reassembly department staging area. The reassembly supervisor then assigns the files to the reassembly teams based on their work loads. Each reassembly team consists of two individuals. The reassembly supervisor indicates on the Reassembly Department Loan Assignment Log (Exhibit VII) which team each file was given to and the time each was assigned.

The reassembly team then reassembles the original file into its original state. This includes placing the file in its original folder and replacing all fasteners in exactly the manner as originally received from the file room. Also, pink sheets are placed behind each tab in the original file to segregate documents already copied from new documents added to the file. The due diligence contractor copy is then assembled in the exact format as the original file (e.g. dividers are placed where the original had dividers and staples are put where the original had staples). The other copy, the microfiche copy, is hole punched and fastened with ACCO fasteners. Upon completion of the reassembly process the reassembly supervisor notes each file completed and the time of completion on the tracking log. The files are then moved to the staging area for transfer to the quality control department.

Quality Control/Quality Assurance

Together, the reassembly and quality control supervisors identify and log all files that are being transferred from the reassembly area to the quality control area. The PW TOP participates in this process.

The quality control supervisor prepares the Quality Control Department Tracking Log (Exhibit VIII) indicating which files are to be moved to the quality control staging area. The quality control supervisor and the reassembly supervisor verify the files that are to be moved and then sign each other's tracking log. The quality control supervisor's signing of the reassembly supervisor's tracking log transfers the responsibility for the files from the reassembly department to the quality control department. The PW TOP observes and assists with this process and initials the receipt log. The files are then physically moved to the quality control staging area. The quality control supervisor then assigns the files to quality control teams based on work load. The quality control supervisor notes on the Quality Control Department Loan Assignment Log (Exhibit IX) which quality control team received each file.

The quality control team then reviews the shadow copy page by page comparing it to the original. The process is then repeated with the microfiche copy compared to the original. If the team discovers missing pages from the copy or illegible pages in the copy, they note the problem on the Quality Control Problem Identification Report (Exhibit X) which details a description of the problem. Also the problem pages are flagged both on the copy as well as the original. The quality control supervisor then indicates on the tracking log which files are complete and which files need rework and the time of completion. The completed files are moved to the completed file staging area and the files needing rework are moved to the rework staging area. Files for which other problems have been identified are placed on an Exceptions Processing Assignment Log (Exhibit XIII) and exceptions are resolved.

The files requiring rework are then moved to the rework area and the quality control supervisor notes on the tracking log which files were moved to the rework area and the time they were moved. The rework staff makes the necessary corrections to the copies based on the problem identification report. Upon completion the quality control supervisor indicates on the tracking log which files have been completed and the time of completion. The files are then reviewed by the quality control department in the same manner as before they went to the rework group.

Upon completion of the quality control procedures, the original files are moved to the quality assurance department where they are staged for quality assurance. Quality assurance is an additional quality control step done by PW employees on a sample of the files. Quality Assurance is tracked on the Quality Assurance Department Loan Tracking Log (Exhibit XI). Quality assurance assignments are tracked on the Quality Assurance Department Loan Assignment Log (Exhibit XII).

When files are ready for shipping, the Quality Assurance supervisor notifies the transfer department. Files are transferred following the procedures in Section V.

Environment

The overall reproduction process is being performed in controlled environments. Access to the areas are physically restricted allowing access only to authorized personnel. Access is controlled through the use of a sign in and sign out process monitored by a security guard and all authorized personnel are given badges which must be displayed at all times. Guards are posted at all points of access allowing access only through one entrance.

The overall flow of files through the copy centers is designed in a manner to segregate the physical location of the files into the four distinct departments previously described. No files are moved between departments without the knowledge of the department supervisors and PW TOP, and without being logged on the tracking logs of both departments.

All logs are maintained within the respective copy center departments.

Express Copy Centers

The chief function of the express copy centers is to reproduce documents which the DDCs have tagged during original file review and which will be used to build the investor files. Since the express copy centers are smaller in terms of copy volume than the major copy centers, the division of labor in the express centers is less rigid than in the major centers. The procedures for express copy centers follow:

1. The PW express copy center logs files from the due diligence contractor as received, recording loan number/name, container number (if applicable), and number of files received (see Exhibit XIV).

2. The due diligence contractor signs the log form and indicates his or her badge number and social security number and the time the file exchange took place.

3. The files received from the due diligence contractor contain documents that have been tagged for copying. The due diligence contractor uses colored tabs to mark the beginning and end of each document designated for copying. Yellow tabs labelled with a "B" mark the beginning of a document. Red tabs labelled with an "E" mark the end of a document.

4. Copying is done by temporary teams comprised of two employees per machine. The teams are under the full-time supervision of a PW employee. Tagged documents to be copied are removed from their bindings and maintained in original order. Copies are paper clipped or rubber banded in groupings that follow the original order of the documents. All copies pertaining to a folder within the original asset are placed in manilla folders.

Exhibit D

COLLATERAL COPY AND CERTIFICATION PROCESS

Collateral File Copy and Certification procedures consist of the following 5 stages:

1. Receiving Stage - Collateral files are received from the original file source.

2. Preparation Stage - Each page of each collateral file is numbered and the files are prepared for copying. The pagination process is checked by PW to ensure that all pages are numerically sequenced and the sequence range is noted for each file.

3. Copying Stage - One copy of all documents in the collateral files is made.

4. Reassembly/Quality Control Stage - The original document is reassembled and the copy is arranged and assembled in the same manner as the original. 100% of the copy is then compared by the same temporary personnel on a page-by-page basis to the original document.

5. Quality Assurance Stage - 100% of the copy is compared by PW to the original collateral file to confirm consistency and to verify page number sequence. Each page of the copy is stamped with a certification stamp on its face in red ink.

In addition, special copy procedures are provided for copying of oversized documents. The above stages contain a series of checks to maintain control of the files (e.g. logging procedures) in order to ensure the quality of the copying process and the movement of the files through the various processes on a timely basis.

Exhibit D

II. STAFFING MIX BY SHIFT

Procedure	Average Number of Staff	
	PW	Temporary
Shipper		1
Document Prepper		7 *
QA Pagination	2	
Copier		6 *
QC/Reassembler		11 *
QA	6 *	
TOP	1	
General Manager	1	
Total	10	25

* Includes one supervisor

QA Pagination

QA Pagination checks the numerical sequence of each page of the original collateral file and lists the starting and ending page numbers for each file in the "Preparation to Copy" transfer log.

Quality Assurance

Two person QA teams compare the copy page-by-page with the original file, stamping each page with the certification stamp.

Transfer Observation Person (TOP)

The TOP verifies the contents of each box match the log sheets provided by the bank. The TOP accompanies the boxes as the shippers move them from one department to another, signing the transfer log at each destination.

General Manager (GM)

The General Manager oversees all operations, resolving any discrepancies that arise.

III. RECEIVING

1. The PW Transfer Observation Person ("TOP") verifies that the contents of each box match the log sheets provided by the Home Federal Bank Senior File Asset Coordinator at the bank. If there are discrepancies, the TOP and the Senior File Asset Coordinator reconcile them immediately. The PW employee taking possession of the documents signs the Original Collateral File Transmittal provided by the Senior File Asset Coordinator.

2. The TOP makes a copy of the Original Collateral File Transmittal and takes it to MIS to create the printed logs for the copy process. The Senior File Asset Coordinator keeps the original transmittal form.

3. For each box, the MIS person creates printed logs for the transfer of each box between the following areas:
   - Bank to Shipping
   - Shipping to Document Preparation
   - Document Preparation to Copy/Reassembly/QC
   - Copy/Reassembly/QC to Quality Assurance
   - Quality Assurance to Shipping
   - Shipping to Bank

   (See copies of transfer logs at Appendices A-2 through A-7)

4. The TOP takes the printed logs to the bank and verifies that the MIS printed logs match both the contents of the boxes and the Original Collateral File Transmittal from the Senior File Asset Coordinator. Discrepancies are resolved by the TOP and Senior File Asset Coordinator. The logs for each box and a copy of the bank's transmittal form are placed in a folder marked for that box.

5. The TOP calls for shippers to move the boxes to be transferred.

6. The Senior File Asset Coordinator and the Shipper confirm the contents of the boxes to be transferred. The Senior File Asset Coordinator and the Shipper sign the "Bank to Shipping" transfer log(s). The TOP observes this process and signs the transfer log.

7. The TOP accompanies the boxes as the shippers move them from the bank to the copy center.

   NOTE: For each transfer throughout the process, after the logs have been signed and a department team has been assigned, the TOP makes two copies of the log. The TOP keeps the original, one copy is filed with the transferring department and one copy is collected by MIS.

8. At the completion of this transfer, the Shipper and the Document Preparation Supervisor confirm the contents of the boxes and sign the "Shipping to Document Preparation" transfer log(s).

IV. PREPARATION

1. PAGINATION

   A. After the Shipper transfers the collateral files to the Prep Department, the Prep Supervisor assigns the files to a two-person Prep team and indicates on the Tracking Log which team received the files.

   B. Pagination sequences are assigned to the Prep teams for use in numbering the document pages, for example:

Team A	100001	to 200000
Team B	200001	to 300000
Team C	300001	to 400000

   The numbers are preprinted peel-off labels.

   C. The release of sequence numbers, in manageable increments, is carefully controlled by the Prep Supervisor. The Prep Supervisor pays special attention to ensure that the right increments are given to the right teams.

   D. The members of the individual Prep teams sit facing each other. The person directly facing the file places the number on the page. The

person who faces opposite the direction of the file turns the file pages and checks that the numbers are properly applied.

E. The team member sequencing the pages places the numbers on the bottom right corner of each page, so as not to obliterate the printed text. If there is no space in the bottom right corner, the team member places the number in one of the following areas, with "a" ranking as the highest priority choice and "e" the lowest:

a) vertically along the right margin area near the bottom
b) in the bottom left corner
c) vertically along the left margin area near the bottom.
d) in the bottom center
e) vertically along the right margin starting at the top and working down

NOTE: All documents including special documents (i.e., plat maps) are to be paginated according to above procedures.

2. PREPARATION

After the pagination process has been completed, the team performs the following steps to prepare the files for the copy process:

A. The "Prep-er" removes staples from documents and places a paper clip on each set of documents that need to be re-stapled later to maintain the integrity of the file.

B. If several stepled documents are paper clipped together in the original file, the "Prep-er" replaces each staple with a paper clip and then clips all these documents together with the original paper clip. The "Prep-er" also places a post-it note by the original paper clip instructing the assemblers to paper clip those stapled documents together.

NOTE: If a special document is encountered (i.e., plat maps), the "Prep-er" refers to the Special Document Procedures (See Special Document procedures in Section VIII).

C. File covers are prepared by the Prep Department for the copy of the files. The file covers prepared by the Prep Department contain the label for the front of the folder which states the file title. The Prep Department places each file cover in its copy box.

3. PW PAGINATION QUALITY ASSURANCE

   A. After the preparation of the box of files is completed, PW Pagination Quality Assurance ("QA") checks the numerical sequence of each page of the original collateral file. PW Pagination QA obtains the "Preparation to Copy" transfer log from the TOP and lists the starting and ending page numbers for each file under the comments column.

   B. If a page is accidentally not numbered, a number must be added to the sequence (i.e. if an un-numbered page is found between #15 and #16, the page is numbered as #15a.) If a number is accidentally skipped in the sequence, a page noting "this page left intentionally blank" is numbered and inserted in between the gap in the numbers to restore the numerical sequence.

When the Pagination QA process is complete, the Prep Supervisor and the Copy Supervisor confirm the contents of the box and sign the "Preparation to Copy" transfer log. The TOP observes this process and signs the transfer log.

V. COPYING

1. After the Prep Supervisor transfers the collateral files to the Copy Department, the Copy Supervisor assigns the box to a copy person (copier) and indicates on the "Preparation to Copy" transfer log which copier received the box. Files that are not assigned are held in a staging area in a certain section of the Copying Department until they are assigned to a copier.

2. The Copier removes the documents from the collateral files and places the documents, one page at a time, on the copy machine facing down.

   - The Copier checks each document for any two-sided or varying sized pages before it is copied. All documents are copied on 8-1/2" X 14" paper. <u>One copy is made of every original document</u>.

   - Two-sided documents are copied onto two separate sheets. <u>No two-sided copying is done</u>.

   - No documents are reduced or enlarged; the size of the original document is the size of the copy.

3. After the file is copied, the Copier places the copy in the folder prepared by the Prep Department and hands the folder and the originals to the Reassembly/QC team assigned to that copier. During the copying process, the folder is kept under each stack of copies.

   NOTE: When a Special Document file is located, copy department creates a special document folder for each copy and places the folders in the appropriate stacks.

VI. REASSEMBLY/QUALITY CONTROL

The Reassembly/Quality Control team of two temporary personnel reassemble and restore the original file to its original state. The reassembly team works together to simultaneously reassemble the original file and assemble the copy file to be identical to the original file.

The reassembly procedures are as follows:

1. The Reassembly/QC team is assigned to a copier and reassemble the original and the copies immediately following the copy process.

2. The reassembly of the original collateral file and the building of the copy file is done simultaneously by the reassembly team. The following procedures illustrate proper reassembly:

Original File:

A. The reassembler staples all documents which are paper clipped and have original staple holes. Documents without staple holes remain paper clipped only.

B. The reassembler places all documents back in the original folders.

   NOTE: If the reassembler comes across a manilla folder with a Special Copy Information Sheet attached, they affix a note to the top of the box indicating that a special document needs to be reinserted. They also make a similar notation on the "Reassembly/Quality Control to Quality Assurance" transfer log in the comments column.

Copy File:

The copy file exactly duplicates the original file. The following procedures are followed:

A. The reassembler staples all copies in accordance with the original file.

B. The reassembler labels and places dividers in the copy file in accordance with the original file.

NOTE: If a special document folder is found during the reassembly process, but the special document has not been returned from reproduction, the reassembler leaves the folder in the file in the same manner as they found it.

C. If a copy is illegible, the reassembler refers to the original document. If the original document is legible, the reassembler recopies that document, using a convenience copier. If the original is illegible and cannot produce a satisfactory copy, the reassembler files a Poor Quality ("PQ") sheet on top of or in place of the illegible copy.

While the assembly and reassembly is performed, the team also performs a 100% quality control check of the copies of the collateral files for completeness and legibility.

1. To check the completeness of the copy, the QC team compares the copy with the original file page-by-page. While checking completeness, the QC team reviews the overall legibility of the copy.

NOTE: If a special document folder is found during the QC process, but the special document has not been returned from reproduction, the reassembler leaves the folder in the file in the same manner as they found it.

2. If a copy is missing or illegible or if the file is improperly tabbed or labelled, the QC team notes it on a Problem Log obtained from the Reassembly/QC Supervisor (See copy of Problem Log at Appendix A-8) and corrects the file.

NOTE: If a copy is illegible, the QC worker refers to the original document. If the original document is legible, the QC worker recopies that document, using a convenience copier. If the original is illegible and cannot produce a satisfactory copy, the

QC worker files a PQ sheet (obtained from the Reassembly/QC Supervisor) on top of or in place of the illegible copy.

3. After the copy is checked by the Reassembly/QC team, the entire file is returned to the Reassembly/QC Supervisor. The Reassembly/QC Supervisor and the QA Supervisor confirm the contents of the boxes and sign the "Reassembly/Quality Control to Quality Assurance" transfer log. The TOP observes this process and signs the transfer log.

VII. QUALITY ASSURANCE

At this stage, 100% of the copies of the collateral files are re-checked for completeness and legibility and the copy file is stamped with the certification stamp. The QA is performed by PW staff.

1. After the QC Supervisor transfers the collateral files to the QA Department, the QA Supervisor assigns the boxes to two-person QA teams and indicates on the "Reassembly/Quality Control to Quality Assurance" transfer log which QA team received the boxes. Files that are not assigned are held in a staging area in a certain section of the QA Department until they are assigned to the QA team.

2. To check the completeness and accuracy of the copy, the original file is placed on the table in front of one team member and the copy is placed in front of the other. The QA team then compares the copy page-by-page with the original file. While checking for completeness and legibility, the team member with the copy also stamps each page of that copy with the certification stamp (see Collateral Certification Process below).

3. If a special document folder is found, but the special document has not been returned from reproduction, the QA worker contacts the Special Documents Manager to determine the status of the document. It is the responsibility of the Special Documents Manager to track each special document being reproduced and ensure that the original is correctly returned to its file and the copies are correctly placed in the respective copy files. (See Special Document procedures in Section VIII).

4. If a copy is missing or illegible, the QA team notes it on the Problem Log obtained from the QA Supervisor (a new Problem Log is filled out for each file (loan) within the box). The QA team then corrects the file. If the illegible copy is due to an illegible original and a PQ sheet has not been included by QC, the QA team files a PQ sheet (obtained from the QA Supervisor) on top of or in place of the illegible copy.

Exhibit D

COLLATERAL CERTIFICATION PROCESS

The purpose of the certification process is to provide a copy of the original collateral documents which is certified as business records of HomeFed Bank. HomeFed ("HF") is responsible for the actual certification. PW is responsible for providing and managing the controlled environment in which certification takes place. The certification process provides that a HF employee supervise PW employees stamping documents with stamps bearing the HF employee's signature. Throughout the process, the following assumptions are made:

- Each HF employee is responsible for the stamps bearing his or her signature.
- All stamps are maintained in a locked file cabinet located in the certification area.
- Each HF employee has a key to the file cabinet.

Exhibit D

1. DISTRIBUTION OF THE STAMPS

Logging Stamps Out

A. The HF Employee unlocks the file cabinet and removes, for each QA team, one stamp bearing his or her signature and then relocks the cabinet.

B. The HF Employee distributes one stamp to each QA team.

C. Each member of the QA team fills in his or her name on the Certification Stamp Assignment Log (see copy of Certification Stamp Assignment Log attached at Appendix A-10).

D. The HF Employee enters and initials the time the QA team received the stamp on the Assignment Log.

Logging Stamp In

A. The HF Employee collects all of the stamps bearing his or her signature.

B. The HF Employee enters and initials the time the team returned the stamp on the Assignment Log.

C. The HF Employee unlocks the file cabinet, transfers the stamps to the file cabinet, and then relocks the cabinet.

2. LOG MAINTENANCE

The original Certification Stamp Assignment Logs are maintained by PW. Copies of the logs are turned over, at the completion of the certification process, to Kelly Stimpson and/or Mike Hargrove, Great Western Building, Floor B-2 (699-7898). Copies of the Logs are also be delivered to the Bank.

3. APPLICATION OF THE PROCESS

The certification process occurs simultaneously with the QA process. The QA team member with the copy of the collateral file is designated as the "Stamper". The Stamper observes the following procedures:

A. Quality assure each document to be certified by following the procedures outlined above.

B. Determine where the certification stamp is placed on the document according to the following hierarchy:

- bottom of the page, center
- bottom of the page, right side
- vertical in the right margin, as near the bottom as possible
- vertical in the left margin, as near the bottom as possible
- top of the page

It is important that the stamp not obscure any printed text. However, if adequate empty space is not available on the document, the stamp is placed in a position which obscures as little text as possible and only covers "form text" (not signatures or unique information). If a document is accidentally stamped twice, the document is recopied and stamped again.

C. Stamp each page of the copy with the certification stamp in red ink under HF supervision.

D. The QA team member working with the original collateral file (person sitting in the middle) checks the imprint of the stamp to ensure proper placement and legibility of the imprint. If the imprint is improperly placed or is illegible, a new copy of the page is immediately made by the Stamper. The Stamper notes the problem on the Problem Log and then restamps the page.

NOTE: If the Stamper encounters an illegible copy which has not been corrected by Reassembly/QC, the Stamper notes the problem on the Problem Log, recopies the page and then stamps the page.

After the QA and Certification processes has been completed, the boxes are returned to the QA Supervisor. The TOP calls for shippers to transfer the boxes to the bank. The QA Supervisor and the Shipper confirm the contents of the boxes and sign the "Quality Assurance to Shipping" transfer log. The TOP observes this process and signs the transfer log. The TOP accompanies the boxes as the shippers move them from the 10th floor of the Great Western Building to the bank.

At the completion of the transfer, the Shipper and the Senior File Asset Coordinator confirm the contents of the boxes and sign the "Shipping to Bank" transfer logs (one for the original file and one for the certified copy). The TOP observes this process and signs the transfer logs.

VIII. SPECIAL DOCUMENT PROCEDURES

1. PREPARATION

As temporary personnel note a special document within the original file, they observe the following procedures in preparation for the pick up of the special document by the PW Special Documents Handler for reproduction:

A. Temporary personnel remove the special document from the original file.

B. Temporary personnel complete a Special Copy Information Sheet (consult with Prep Supervisor or General Manager if any information is not readily apparent) and make 1 copy of the completed form.

NOTE: If more than one special document exists in the same exact location in a file (i.e. 3 plat maps stapled together), the temporary personnel record the special documents on only one Special Copy Information Sheet (see copy of Special Copy Information Sheet attached at Appendix A-11).

The original and copy of the Special Copy Information Sheet are used as follows:

i) Temporary personnel attach the original Special Copy Information Sheet to the outside of a manilla folder which is inserted in the file where the special document resided.

ii) Temporary personnel attach the copy of the Special Copy Information Sheet to the outside of another manilla folder and insert the original special document in that folder.

NOTE: Once the copy is produced, copy department creates a manilla folder, with a copy of the Special Copy Information Sheet attached, and places it in each of the copy files.

C. The manilla folder containing the original document is released by temporary personnel by logging it onto the "Special Copy Transfer Log For Collateral" (see copy of Special Copy Transfer Log For Collateral attached at Appendix A-12).

D. Temporary personnel contact the PW Special Documents Handler to pick up the manilla folders containing the original document to be copied and a completed Special Copy Information Sheet.

Exhibit D

Handler/Special Documents Manager Procedures

All requests for the copying of Special Documents is handled by the PW Special Documents Handler and the Special Documents Manager. The following procedures are observed:

A. The Handler confirms that a separate manilla folder, with the original Special Copy Information Sheet attached, has been placed in the file where the special document originated and verifies that the Special Copy Information Sheet has been filled out completely and legibly. The purpose of this manilla folder is to facilitate the return of the special document to its proper place when the copy process is complete.

B. The Handler then documents the transfer of the special document by completing the "Released to" columns of the transfer log accompanying the manilla folder containing the special document.

NOTE: More than one special document can be recorded on the same log.

C. The Handler makes a copy of the Transfer log and the Special Copy Information Sheet (found on the manilla folder), and provides the Special Documents Manager with the original transfer log and a copy of the Special Copy Information Sheet.

NOTE: The original transfer log remains with the Special Documents Manager for control purposes until the Handler returns from the vendor with the copy and is ready to make final deliveries.

D. The Special Documents Manager examines the transfer log and Special Copy Information Sheet and confirms that they have been completed properly (i.e. for Special Copy Transfer Log For Collateral, confirm that loan name/#, date, time, name, dept, and SSN have been legibly filled out by the person who released the document's into the Handler's possession and by the Handler who took possession). For Special Copy Information Sheet, confirm that loan #, name, asset pool, file type description, number of copies, and sequence identifier have been legibly filled out by the person who released the document into the Handler's possession).

E. The Special Documents Manager determines which vendor is being used and provides the information to the Handler.

NOTE: If more than one special document is being reproduced and the items listed on a transfer log are being sent to different vendors, a copy of the transfer log is made for each Handler involved in this process.

F. The Handler delivers the manilla folder containing the original document to the designated vendor and waits until the reproduction process is completed. The Handler is present and supervises vendor personnel making the copies. (If the vendor is unable to complete all of the jobs listed on the transfer log in a business day, the Handler returns the incomplete jobs to the Special Documents Manager for reassignment on the following day.)

G. Once the Vendor has completed the reproduction process, the Handler returns the manilla folder with the special document original and the special document reproductions to the Special Documents Manager for review and instructions on the final destinations of these items. At this time the Handler retrieves the original transfer log from the Special Documents Manager and provides the Special Documents Manager with his or her copy of the transfer log (e.g. the Handler and the Special Documents Manager exchange transfer logs).

NOTE: If reproduction is incomplete or inaccurate, the Special Documents Manager takes physical possession of the special document, transfer log copy, and Special Copy Information Sheet and stores them in the Special Documents area until they can be re-assigned on the next shift.

H. The Handler delivers the original file and the reproductions to the indicated destination. The receiving department completes the "Received by Department" columns on the original transfer log.

I. When all deliveries on the original transfer log have been completed, the Handler returns the original transfer log and the Special Copy Information Sheet to the Special Documents Manager.

APPENDIX

Original Collateral File Transmittal	A-1
Bank to Shipping Transfer Log	A-2
Shipping to Document Preparation Transfer Log	A-3
Document Preparation to Copy/Reassembly/QC Transfer Log	A-4
Copy/Reassembly/QC to Quality Assurance Transfer Log	A-5
Quality Assurance to Shipping Transfer Log	A-6
Shipping to Bank Transfer Logs	A-7
Problem Log	A-8
Certification Stamp Assignment Log	A-9
Special Copy Information Sheet	A-10
Special Copy Transfer Log For Collateral	A-11

Exhibit E

HomeFed Daily Recap
July 1, 1992

TO:	Ann Hewitt	Ron Cline
	Bob Montagne	Herb Held
	Frank Capotosto	J. Earle
		A.J. Felton
	Tom Horton	Sherwin Koopmans
	Lisa Spector	Elliott Riviere
FROM:	Chris Gething	
	Ted Murphy	

TODAY'S DEVELOPMENTS:

- Meeting with PW, GT and GS to develop recommendations for war room logistics.
- Meeting with RTC, GS and PW to review definitions of book value for investor information packages.
- Meeting with the HomeFed CFO to discuss the loan servicing system conversion. Agreed that the new system (Shaw) will continue to be run on a parallel basis, and the original system (MLN) will be the "live" system.
- Meeting with GS/AA to discuss asset transfers to date with respect to the Performing Multifamily/Commercial loan pool.

PENDING MEETINGS:

- Meeting with PW and GS to discuss Consumer and Private Banking Loan due diligence, and mortgage loan participation issues.
- Meeting with HomeFed, GS, AA and PW to discuss credit file copying for the C&I assets.

ISSUES TO RESOLVE:

- Systems conversion for Multifamily/Commercial loans - commitment to maintain parallel system.
- May 31 update fields for Performing assets received with inconsistencies - need to reconcile.
- Printer selection.
- QC sample size.

cc: Team Leaders
Andy Alper
Hal Hinkle

SOMERSET BANK, FSB
EXECUTIVE SUMMARY
Due Diligence Review
July 1st Status Report

Due Diligence Contractor	Unimet	EL	AA	AA	AA	EL	EL	TOTAL
Asset Group	Performing Single Family	Sing. Family Non-PerfLns/REO	Consumer	Corporate C&I	Private Banking	Performing MFD+commercial	Non-Perf/ REO+Cont.	Land HomeCap
	Delq | Curr.	Delq | Curr.	Delq | Curr.	Delq | Curr.	Delq | Curr.	Delq | Curr.	Delq | Curr.	Delq | Curr.
(Total Assets (Units)	78,178	363	1,465	73	189	2,539	346	179	89
(Tot Assets ($MM)	$5,970.0 $744.8	$19.9	$59.0	$15.5	$2,357.9	$110.0	$544.4	Bal.:	117,452
Rem Reviews (Units)	222 36,958	44 280	0 1,143	4 63	0 27	56 2,156	6 340	0 132	0 17
Data Reviews Completed (DCV) (Units)	0 19,505	35 281	0 1,165	2 13	0 16	129 1,707	0 256	4 147	0 0
Preliminary IPs Assessed (Units)	0 0	? 0	0 0	2 8	0 0	93 1,449	0 340	4 147	0 0
Legal Reviews Completed (Units)	0 0	? 0	0 0	1 6	0 0	0 588	0 346	21 155	0 0
Loan-to-Value Completed (Units)	0 0	? 0	0 0	0 0	0 0	0 426	0 0	0 0	0 0
% Rem Reviews Completed (Units)	53.0% 100.0%	55.8% 100.0%	78.1% 100.0%	8.2% 100.0%	0.0% 100.0%	9.3% 100.0%	94.5% 100.0%	95.6% 100.0%	97.7% 100.0%
% Data Reviews Completed (Units)	27.6% 50.0%	24.5% 77.4%	79.5% 79.5%	0.0% 17.8%	11.6% 11.6%	74.2% 74.2%	68.8% 73.9%	98.5% 98.5%	0.0% 0.0%
% Preliminary IPs Assessed (Units)	0.0% 0.0%	0.0% 0.0%	0.0% 0.0%	11.0% 11.0%	0.0% 0.0%	62.4% 62.4%	98.3% 98.3%	98.5% 98.5%	0.0% 0.0%
% Legal Reviews Completed (Units)	0.0% 0.0%	0.0% 0.0%	0.0% 0.0%	4.5% 4.5%	0.0% 0.0%	40.1% 40.1%	68.8% 68.8%	72.3% 72.3%	0.0% 0.0%
% Insurance Rev. Completed (Units)	0.0% 0.0%	0.0% 0.0%	0.0% 0.0%	0.0% 0.0%	0.0% 0.0%	0.0% 0.0%	0.0% 0.0%	51.4% 51.4%	0.0% 0.0%

Prepared by: Data Validation, ALL DATA PROVIDED BY DILIGENCE CONTRACTORS

MAJOR ISSUES

1. RTC documents & case files missing 40% for environmental issues

Goldman, Sachs & Co.
HomeFed Bank, FSB
Daily Due Diligence Summary

Asset Type	Single Family (1-4's)
Due Diligence Firm:	Univest
Contact Person:	Kevin Williams
Phone Number:	450(33)-7872
Location:	Science Park/Fletcher Center
Date	01-Jul
Based On Reviews Completed Through:	29-Jun
Number of Reviewers On-site:	120
Prepared By:	Brett Kaplan

	WHOLE # Units	WHOLE $	PART # Units	PART. $	LSBO's # Units	LSBO's $	TOTAL # Units	TOTAL $
Total Assets	39,810	$5,050.7	28,615	$216.3	3,153	$112.1	70,778	$5,379.0
% of Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Int Reviews Completed	38,958	$5,064.8	0	0	0	0	38,958	$5,064.8
% of Total	99.9%	100.3%	0.0%	0.0%	0.0%	0.0%	55.0%	94.2%
Completed Data Extract (QC'd)	19,505	$2,393.2	0	$0.0	0	$0.0	19,505	$2,393.2
% of Total	50.0%	47.4%	0.0%	0.0%	0.0%	0.0%	27.6%	44.5%
Form	CDF	CDF	CDF	CDF	CDF	CDF		
Property Inspections	0	$0.0	N/A	N/A	N/A	N/A	0	$0.0
% of Total	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Requirement	2.0%		0.0%		0.0%			
Valuation (DIV)	0	$0.0	0	$0.0	0	$0.0	0	$0.0
% of Total	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
T&I Escrow Audit	0	$0.0	N/A	N/A	N/A	N/A	0	$0.0
% of Total	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Requirement	2.0%		0.0%		0.0%			
ARM Analysis	0	$0.0	0	$0.0	N/A	N/A	0	$0.0
% of Total	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Requirement	3.0%		??		0.0%			
Preliminary IF's Assembled	0	$0.0	0	$0.0	0	$0.0	0	$0.0
% of Total	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Legal Review Completed	0	$0.0	0	$0.0	0	$0.0	0	$0.0
% of Total	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Investor Files Completed	0	$0.0	0	$0.0	0	$0.0	0	$0.0
% of Total	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Exhibit E

Exhibit E

Goldman, Sachs & Co.
HomeFed Bank, FSB
Daily Due Diligence Summary

Asset Type:	Single Family Non-Performing and REO's
Due Diligence Firm:	KL
Contact Person:	Bill Palm
Phone Number:	450(33)-7810
Location:	Colesse Park
Date:	01-Jul
Number of Reviewers On-site:	4
Prepared By:	Brett Kaplan

	REO # Units	REO $	FORCL. # Units	FORCL $	COLL # Units	COLL $	TOTAL # Units	TOTAL $
Total Files	292	NA	535	$120.5	136	$24.3	963	$144.8
% of Total	100.0%	0.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Copied Files Received To Library	292	NA	164	NA	0	$0.0	456	$0.0
"Live" Files Received to Library	0	$0.0	0	$0.0	0	$0.0	0	$0.0
Total Files Received in Library	292	$0.0	164	$0.0	136	$24.3	592	$24.3
% of Total	100.0%	0.0%	30.7%	0.0%	100.0%	100.0%	61.5%	16.8%
Files Checked Out to DDC	292	NA	150	$0.0	0	$0.0	442	$0.0
Available Backlog of Files in Library	0	$0.0	14	$0.0	136	$24.3	150	$24.3
Total Assets	292	NA	535	$120.5	136	$24.3	963	$144.8
% of Total	100.0%	0.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
1st Reviews Completed	290	$59.3	0	$0.0	0	$0.0	290	$59.3
% of Total	99.3%	0.0%	0.0%	0.0%	0.0%	0.0%	30.1%	41.0%
Completed Data Extract (QC'd)	281	$58.2	0	$0.0	0	$0.0	281	$58.2
% of Total	96.2%	0.0%	0.0%	0.0%	0.0%	0.0%	29.2%	40.2%
Form	CDF		CDF		CDF			
Property Inspections	0	$0.0	0	$0.0	0	$0.0	0	$0.0
% of Total	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Requirement	??		??		??			
Valuation (DIV)	0	$0.0	0	$0.0	0	$0.0	0	$0.0
% of Total	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
T&I Escrow Audit	0	$0.0	0	$0.0	0	$0.0	0	$0.0
% of Total	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Requirement	??		??		??			
Preliminary LF's Assembled	0	$0.0	0	$0.0	0	$0.0	0	$0.0
% of Total	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Legal Review Completed	0	$0.0	0	$0.0	0	$0.0	0	$0.0
% of Total	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Investor Files Completed	0	$0.0	0	$0.0	0	$0.0	0	$0.0
% of Total	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Exhibit E

Goldman, Sachs & Co.
HomeFed Bank, FSB
Daily Due Diligence Summary

Asset Type:	Consumer
Due Diligence Firm:	AA
Contact Person:	Larry Sand
Phone Number:	450(33)-7810
Location:	Science Park/Fletcher Center
Date:	01-Jul
Number of Reviewers On-site:	2
Prepared By:	Brett Kaplan

	# Units	$
Total Assets	1,466	$10.0
% of Total	100.0%	100.0%
1st Reviews Completed	1,145	$8.2
% of Total	78.1%	82.0%
Completed Data Extract (QC'd)	1,145	$8.2
% of Total	78.1%	82.0%
Form	CDF	CDF
Property Inspections	NA	NA
% of Total	NA	NA
Requirement	NA	
Valuation (DIV)	0	$0.0
% of Total	0.0%	0.0%
T&I Escrow Audit	NA	NA
% of Total	NA	NA
Requirement	NA	
Preliminary IF's Assembled	0	$0.0
% of Total	0.0%	0.0%
Legal Review Completed	0	$0.0
% of Total	0.0%	0.0%
Investor Files Completed	0	$0.0
% of Total	0.0%	0.0%

Exhibit E

Goldman, Sachs & Co.
HomeFed Bank, FSB
Daily Due Diligence Summary

Asset Type:	Corporate Commercial & Industrial
Due Diligence Firm:	AA
Contact Person:	Chris Caulson
Phone Number:	699-7091
Location:	HF - 1
Date:	01-Jul
Number of Reviewers On-site:	15
Prepared By:	John Kullerstrand

	# Units	$
Total Relationships	73	$601.0
% of Total	100.0%	100.0%
1st Reviews Completed	43	$394.8
% of Total	58.9%	65.7%
Completed Data Extract (QC'd)	13	$112.5
% of Total	17.8%	18.7%
Form	LF (mod)	LF (mod)
Property Inspections	0	$0.0
% of Total	0.0%	0.0%
Requirement	100.0%	
Valuation (DIV)	0	$0.0
% of Total	0.0%	0.0%
Preliminary IF's Assembled	8	$63.8
% of Total	11.0%	10.6%
Legal Review Completed	6	$43.9
% of Total	8.2%	7.3%
Investor Files Completed	0	$0.0
% of Total	0.0%	0.0%

Exhibit E

Goldman, Sachs & Co.
HomeFed Bank, FSB
Daily Due Diligence Summary

Asset Type:	Private Banking
Due Diligence Firm:	AA
Contact Person:	Larry Sand
Phone Number:	450(22)-7810
Location:	9th Floor HFB
Date:	01-Jul
Number of Reviewers On-site:	5
Prepared By:	John Kullerstrand

	# Units	$
Total Assets	138	$35.3
% of Total	100.0%	100.0%
1s: Reviews Completed	27	N/A
% of Total	19.6%	0.0%
Completed Data Extract (QC'd)	16	$0.0
% of Total	11.6%	0.0%
Form	CDF	CDF
Property Inspections	N/A	N/A
% of Total	N/A	N/A
Requirement	N/A	
Valuation (DIV)	0	$0.0
% of Total	0.0%	0.0%
T&I Escrow Audit	N/A	N/A
% of Total	N/A	N/A
Requirement	N/A	
Preliminary IF's Assembled	0	$0.0
% of Total	0.0%	0.0%
Legal Review Completed	0	$0.0
% of Total	0.0%	0.0%
Investor Files Completed	0	$0.0
% of Total	0.0%	0.0%

Exhibit E

Goldman, Sachs & Co.
HomeFed Bank, FSB
Daily Due Diligence Summary

Asset Type:	Performing MF/Commercial
Due Diligence Firm:	AA
Contact Person:	Corey Dickinson
Phone Number:	699-7109
Location:	HF - S
Date:	01-Jul
Number of Reviewers On-site:	
Prepared By:	John Kullerstrand

	Central Files	Collateral Files
Total Files	2,313	2,313
% of Total	100.0%	100.0%
Copied Files Received To Library	2,280	2,270
"Live" Files Received to Library	0	0
Total Files Received in Library	2,280	2,270
% of Total	98.6%	98.1%
Files Checked Out to DDC	2,280	2,270
Available Backlog of Files in Library	0	0

	>$0.5 mm # Units	>$0.5 mm $	<$0.5 mm # Units	<$0.5 mm $	TOTAL # Units	TOTAL $
Total Assets	748	$2,100.3	1,565	$235.6	2,313	$2,335.9
% of Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
1st Reviews Completed	705	$1,950.0	1,431	$217.2	2,136	$2,167.2
% of Total	94.3%	92.8%	91.4%	92.2%	92.3%	92.8%
Completed Data Extract (QC'd)	682	$1,907.0	1,035	$160.0	1,717	$2,067.0
% of Total	91.2%	90.8%	66.1%	67.9%	74.2%	88.5%
Form	LF	LF	CDF	CDF		
Property Inspections	546	NA	0	$0.0	546	$0.0
% of Total	73.0%	0.0%	0.0%	0.0%	23.6%	0.0%
Requirement	100.0%		0.0%			
Valuation (DIV)	0	$0.0	0	$0.0	0	$0.0
% of Total	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
T&I Escrow Audit	0	$0.0	0	$0.0	0	$0.0
% of Total	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Requirement	??		??			
Preliminary 1F's Assembled	NA	NAV	NA	$0.0	1,449	$2,000.9
% of Total	0.0%	NAV	0.0%	0.0%	62.6%	123.4%
Legal Review Completed	NA	NAV	NA	$0.0	928	NAV
% of Total	0.0%	NAV	0.0%	0.0%	40.1%	NAV
Investor Files Completed	NA	NAV	NA	$0.0	426	NAV
% of Total	0.0%	NAV	0.0%	0.0%	18.4%	NAV

Exhibit E

Goldman, Sachs & Co.
HomeFed Bank, FSB
Daily Due Diligence Summary

Asset Type:	Non-performing/REO/Construction
Due Diligence Firm:	KL
Contact Person:	Jan Kasun
Phone Number:	699-7155
Location:	HF - 3
Date:	01-Jul
Number of Reviewers On-site:	63
Prepared By:	Jan Kasun

	Central Files
Total Files	346
% of Total	100.0%
Copied Files Received To Library	
"Live" Files Received to Library	
Total Files Received in Library	346
% of Total	100.0%
Files Checked Out to DDC	346
Available Backlog of Files in Library	0

	>$0.5 mm # Units	>$0.5 mm $	<$0.5 mm # Units	<$0.5 mm $	TOTAL # Units	TOTAL $
Total Assets	313	$1,613.0	33	$8.0	346	$1,621.0
% of Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
1st Reviews Completed	311	$1,595.0	29	$7.0	340	$1,602.0
% of Total	99.4%	98.9%	87.9%	87.5%	98.3%	98.8%
Completed Data Extract (QC'd)	283	$1,495.0	11	$3.0	294	$1,498.0
% of Total	90.4%	92.7%	33.3%	37.5%	85.0%	92.4%
Form	LF	LF	SF	SF		
Property Inspections	212	$943.0	N/A	N/A	212	$943.0
% of Total	67.7%	58.5%	0	0	61.3%	58.2%
Requirement	100.0%		0.0%			
Valuation (DIV)	95	$400.0	0	$0.0	95	$400.0
% of Total	30.4%	24.8%	0.0%	0.0%	27.5%	24.7%
T&I Escrow Audit	0	$0.0	0	$0.0	0	$0.0
% of Total	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Requirement	0		0			
Preliminary IF's Assembled	318	NAV	25	$0.0	340	NAV
% of Total	101.6%	NAV	75.8%	0.0%	98.3%	NAV
Legal Review Completed	NA	NAV	NA	$0.0	166	NAV
% of Total	0.0%	NAV	0.0%	0.0%	48.0%	NAV
Investor Files Completed	0	NAV	0	$0.0	0	NAV
% of Total	0.0%	NAV	0.0%	0.0%	0.0%	NAV

Exhibit E

Goldman, Sachs & Co.
HomeFed Bank, FSB
Daily Due Diligence Summary

Asset Type:	Land
Due Diligence Firm:	C&L
Contact Person:	Bill Herzog
Phone Number:	699-7191
Location:	HF - 4
Date:	01-Jul
Number of Reviewers On-site:	19
Prepared By:	Dee Snow

	LOANS		REO		TOTAL	
	# Units	$	# Units	$	# Units	$
Total Files	116	$609.8	43	$135.0	159	$744.8
% of Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Copied Files Received To Library	18	NA	NA	NA	18	NA
"Live" Files Received to Library	97	NA	43	$135.0	140	NA
Total Files Received in Library	115	NA	43	$135.0	158	NA
% of Total	99.1%	0.0%	100.0%	100.0%	99.4%	0.0%
Files Checked Out to DDC	115	NA	43	$135.0	158	NA
Available Backlog of Files in Library	0	$0.0	0	$0.0	0	$0.0
Total Assets	116	$609.8	43	$135.0	159	$744.8
% of Total	100.0%	100.0%	100.0%	100.0%	100.0%	$2.0
1st Reviews Completed	109	$597.0	43	$135.0	152	$732.0
% of Total	94.0%	97.9%	100.0%	100.0%	95.6%	98.3%
Completed Data Extract (QC'd)	109	$597.0	38	$128.9	147	$725.9
% of Total	94.0%	97.9%	88.4%	95.5%	92.5%	97.5%
Form	LF		LF			
Property Inspections	8	NA	2	NA	10	$0.0
% of Total	6.9%	0.0%	4.7%	0.0%	6.3%	0.0%
Requirement	72		35			
Valuation (DIV)	0	$0.0	0	$0.0	0	$0.0
% of Total	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
T&I Escrow Audit	0	$0.0	0	$0.0	0	$0.0
% of Total	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Requirement	N/A		N/A			
Preliminary IF's Assembled	109	$597.0	38	$128.9	147	$725.9
% of Total	94.0%	97.9%	88.4%	95.5%	92.5%	97.5%
Legal Review Completed	84	$584.9	31	$126.8	115	$711.7
% of Total	72.4%	95.9%	72.1%	93.9%	72.3%	95.6%
Investor Files Completed	31	$252.3	19	$102.8	50	$355.1
% of Total	26.7%	41.4%	44.2%	76.1%	31.4%	47.7%

Exhibit E

Morgan Stanley
HomeCapital
Daily Due Diligence Summary

Asset Type:	HomeCapital
Due Diligence Firm:	KI.
Contact Person:	Gina Papandrea
Phone Number:	699-7064
Location:	GW - 4
Date:	01-Jul
Number of Reviewers On-site:	
Prepared By:	Michael Hutchinson

	ASSETS		LOANS	
	# Units	$	# Units	$
Total Files	74	$335.7	56	$330.5
% of Total	100.0%	100.0%	100.0%	100.0%
Total Files Received in Library	72	NAV	56	NAV
% of Total	97.3%	NAV	100.0%	NAV
Files Checked Out to DDC	72	$335.7	56	$330.5
Available Backlog of Files in Library	0	NAV	0	NAV
Total Assets	74	$335.7	56	$332.0
% of Total	100.0%	100.0%	100.0%	100.0%
1st Reviews Completed	72	$335.7	55	$330.4
% of Total	97.3%	100.0%	98.2%	99.5%
Completed Data Extract (QC'd)	0	$0.0	0	$0.0
% of Total	0.0%	0.0%	0.0%	0.0%
Form	LF	LF	CDF	CDF
Property Inspections	25	$0.0	0	$0.0
% of Total	33.8%	0.0%	0.0%	0.0%
Requirement	100.0%		100.0%	
Valuation (DIV)	0	$0.0	0	$0.0
% of Total	0.0%	0.0%	0.0%	0.0%
T&I Escrow Audit	0	$0.0	0	$0.0
% of Total	0.0%	0.0%	0.0%	0.0%
Requirement	??		??	
Preliminary IF's Assembled	0	$0.0	0	$0.0
% of Total	0.0%	0.0%	0.0%	0.0%
Legal Review Completed	0	$0.0	0	$0.0
% of Total	0.0%	0.0%	0.0%	0.0%
Investor Files Completed	0	$0.0	0	$0.0
% of Total	0.0%	0.0%	0.0%	0.0%

Comparative Analysis of Normal Contracted Copying Procedures Verses HomeFed Copying and Document Control Procedures

Preparation

- remove stable and clips
- arrange paper by size

Copy

- load machine
- copy file
- unload machine

Preparation

- request files from institution file room
- log files in transfer log.
- transfer log/box verified by Preparation Supervisor
- files transported to copy center
- files logged into copy center
- file boxes labeled with respect to contents
- assign to preparation technician
- supervisor notes log of assignments
- technician removes fasteners replacing with clips or rubber bands
- files placed back in box and logged into tracking journal

Copy

- Preparation Supervisor and Copy Supervisor log files transferred to copy area
- Copy Supervisor prepares a copy department tracking log
- Copy Supervisor and Preparation Supervisor verify each others log
- Copy Supervisor assigns boxes to work stations
- Copy Supervisor notes log of assignment
- Copy Technician makes two copies of each document
- Copy Technician replaces fasteners exactly as given to him or her
- Copy Technician rubber bands copies to originals
- Original and copies are put back into the boxes
- Copy Supervisor notes time of completion and

transfers to reassembly department

Reassemble

- reorder paper
- staple or clip

Reassemble

- Copy Supervisor and Reassembly Supervisor log the files
- Reassembly Supervisor prepares reassembly tracking log
- Reassembly Supervisor and Copy Supervisor sign each others log
- Reassembly Supervisor assigns file to reassembly teams, each team consists of two individuals
- Reassembly Supervisor notes assignment in reassembly department assignment log
- Reassembly team reassembles file and pink sheets for new information
- Reassemble Supervisor notes completion and time in tracking log
- File transferred to quality control (QC)

Quality Control

- verify no blank pages
- verify alignment

Quality Control

- Reassembly Supervisor and QC Supervisor log files
- QC Supervisor prepares QC Department tracking log
- QC Supervisor and Reassembly Supervisor verify and sign each others log
- QC Supervisor assigns files to QC teams
- QC Supervisor notes assignment log
- QC Team reviews files by comparing copies to originals
- Exceptions are noted on QC problem identification report
- Pages are flagged on both

	copy and original • QC Supervisor logs completed files • completed files are moved to Quality Assurance area • exception files are place exceptions processing assignment log and exceptions are resolved • QC Supervisor notes time of completion in tracking log
Quality Assurance (QA)	Quality Assurance (QA)
•None	• QA is a 20% sample review, by a Price Waterhouse professional, of the coped files compared to the original files to ensure the integrity of the copy and original file • Original files are transferred back to the file room and copies are forwarded to their respective due diligence file library

GAO United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-253343

May 7, 1993

The Honorable Joseph I. Lieberman
Chairman, Subcommittee on Regulation
and Government Information
Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

On March 5, 1993, you asked for information on the award and subsequent unauthorized changes to the Resolution Trust Corporation's (RTC) contract with Arthur Andersen and Company (Arthur Andersen) for due diligence work on the commercial and industrial (C&I) loan portfolio of HomeFed Bank, Federal Savings Association (HomeFed).[1] You asked us to provide the chronology of events in the renegotiation of the fees on this contract and in the negotiation for expanding the contract to include additional work. You wanted to know which RTC officials were involved in the renegotiations and approvals of the contract changes. You also wanted to know whether any payments had been made to Arthur Andersen after the fees were renegotiated.

In summary, the oversight manager in RTC's National Sales Center in Washington, D.C., who was responsible for administering the contract and overseeing Arthur Andersen's performance did not follow prescribed contracting policies and procedures. Without proper authority this manager (1) improperly agreed to fee rate increases and (2) requested Arthur Andersen to do work not specified in the task order and agreed to a fee for this additional work. These actions exposed RTC to

[1]Due diligence involves data collection on specific assets. It may include property inspection, market analysis, cash flow analysis, asset valuation, document review, and preparation of asset files. Potential investors use this information to decide whether to bid on a pool of assets and at what price.

increased fees of over $2 million.

Although there may have been justification for some increase in the contract fee rates, the designated oversight manager had no assurance that the increases orally agreed to were appropriate, warranted, and reasonable. The oversight manager did not independently review and assess the validity of Arthur Andersen's explanations or the accuracy of supporting data when he agreed to the rate increases.

Arthur Andersen also did not abide by the terms of its contract by not consulting the RTC contracting officer regarding Arthur Andersen's request for an increase in fees and RTC's request for a change in the scope of work under the task order.

Finally, although RTC approved funding for the changes, the contract was not modified to incorporate either the changes in fees approved by the oversight manager or the expansion of the scope of work. Nevertheless, two payments for fees based on these changes were made to Arthur Andersen. One check, a partial payment of $120,400 for the out-of-scope work, was sent to Arthur Andersen on January 31, 1993. A second check for $1,379,310 for the due diligence work on the C&I portfolio was sent to Arthur Andersen on February 17, 1993. To date, RTC has not recovered any of these funds.

We did not perform a detailed analysis to determine if Arthur Andersen earned the fees it billed. However, we did discuss with RTC billing issues related to Arthur Andersen. Further, RTC has created a special task force to address and resolve issues pertaining to unauthorized contract/task order commitments, including what fees will be paid. The task force has not yet made any decisions regarding Arthur Andersen's billings for the work on the HomeFed C&I portfolio.

A complete chronology of the events in this case is included in the enclosure to this letter.

We discussed the contents of this letter with senior RTC officials and representatives of Arthur Andersen and considered their comments in preparing this letter.

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As arranged with the Subcommittee, we are sending copies of this letter to RTC's President and Chief Executive Officer and the Chairman of the Thrift Depositor Protection Oversight Board. We will also make copies available to others upon request.

B-253343

If you have any questions concerning this letter, please contact me at (202) 736-0479.

Sincerely yours,

Gaston L. Gianni

Gaston L. Gianni, Jr.
Associate Director, Government
Business Operations Issues

ENCLOSURE ENCLOSURE

CHRONOLOGY OF EVENTS RELATED TO CHANGES
IN THE ARTHUR ANDERSEN DUE DILIGENCE CONTRACT

April 3, 1992

The Office of Thrift Supervision placed HomeFed, a San Diego, California, based thrift with approximately $13 billion in assets, into the Accelerated Resolution Program.[2]

April 24, 1992

Using an existing Basic Ordering Agreement (BOA) created in 1990 for due diligence and file review services, RTC requested task order proposals for such services for HomeFed's C&I, single-family residential mortgage, and consumer loan portfolios. Over 20 firms under the BOA were solicited. Firms were to rely upon the information given in the solicitation and were not given the opportunity to inspect the assets or asset files before submitting their bids.

May 4, 1992

Arthur Andersen was awarded a task order contract for the C&I and consumer installment loan portfolios. In the competitive selection process, its proposal was evaluated as the best offer for these two portfolios among the four firms that bid on this work. Separate fee schedules were included in the task order for each portfolio. (The remainder of this chronology focuses on the C&I portfolio segment of the contract.)

The C&I portfolio was described in the task order as 69 loans with an approximate book value of $659 million. The fee competitively bid by Arthur Andersen for the property/loan file review was $2,200 per loan file. At this fixed rate, the total cost for the loan file review was about $152,000. In addition, the task order also identified other fees that we estimated would not exceed $38,000, bringing the total cost for all tasks related to the C&I portfolio to approximately $190,000.

May 5, 1992

The notification letter advising Arthur Andersen it had been awarded the contract included the following provision:

"The Contract Representative has been designated as

---

[2]This program allows RTC to attempt to sell a thrift before it must be taken over by the government and placed into conservatorship.

well as an additional technical representative. All matters of a contractual nature or any technical direction received which conflicts with the task order scope of services must be immediately brought to the attention of the Contract Representative."

The notification letter identified a contract specialist from the Office of Contracts as the contract representative and two officials from the National Sales Center as RTC's technical representatives, called oversight managers, responsible for the technical aspects of administering the contract.

May 6, 1992

Arthur Andersen met with RTC officials, including the two oversight managers, in San Diego, California, to discuss the due diligence process as required on the Schedule of Events in the Task Order.

May 11, 1992

One of the two RTC oversight managers identified in the contract notification letter was reassigned to work with a failed thrift on the East Coast. The second oversight manager orally designated a deputy, an asset marketing specialist from the National Sales Center, to be the only oversight manager on the Arthur Andersen contract.

RTC's Contract Policies and Procedures Manual (CPPM) states that oversight managers may not redelegate the authority and/or responsibility assigned to them in the letter of authority from the contracting officer. They must notify the contracting officer, in writing, of any individual to be designated as the replacement oversight manager, and the contracting officer will issue a new letter of authority to such individual and the contractor.

The Office of Contracts was not notified of the change until August 10, 1992. However, because of an oversight by the contracting officer, the newly designated oversight manager was not issued a letter of authority for this task order.

May 18, 1992

Arthur Andersen began discussions with RTC's new oversight manager regarding the need for increased fees on the competitively bid, fixed price contract. The oversight manager was told by Arthur Andersen that the C&I portfolio was more complex than described in the solicitation, and the work required a higher skill level and more analysis than anticipated. Arthur

Andersen said that both of these factors would contribute to higher costs. The oversight manager told Arthur Andersen to continue the work and fee increases would be considered.

July 9, 1992

Arthur Andersen met with RTC's oversight manager to discuss the additional time and expenses for the due diligence work on the C&I portfolio. Arthur Andersen asserted that the actual engagement bore very little resemblance to the work described in the solicitation. It again told RTC that the size and complexity of the loans, in addition to requiring substantially more review time, required a higher level of skill and experience in the review staff than it had expected on the basis of RTC's solicitation information. In addition, Arthur Andersen said that it had encountered unexpected administrative difficulties related to the Department of Justice subpoena and its required file handling procedures.

Arthur Andersen said that the task order proposal "...simply stated that there were 69 commercial business loans totalling $659 million with 61 loans over $1 million." However, Arthur Andersen said, "The actual portfolio composition is as follows:

- there are 73 borrower relationships with 88 different borrowers. Of these 73, we will complete review on only 69 since the files for one are with the FBI, two paid off before we commenced our review and the HomeCap relationship was passed to another contractor.

- these relationships are covered by 140 master commitments (revolvers, term loans, letter of credits) which include 389 actual facilities, each of which has its own separate terms, conditions, documentation, characteristics etc. Approximately 35 of these facilities currently have no amounts outstanding. The net number of 354 facilities is over 5 times the number of 69 suggested in the RFP.

- the total commitments of the 73 relationships is approximately $764 Million. However, this amount is very deceptive in that the majority of the commitments represent a participation by HomeFed in a much larger facility. "Grossing" up the commitments to the total facility, which is more indicative of the size and complexity of the credit indicates that the total commitments are in excess of **$5.7 Billion**. The average commitment per relationship is therefore in excess of $78 Million or over 8 times the average of $9.5 Million suggested in the RFP."

Arthur Andersen continued by stating that the credits were very complex, many were problem assets, and the portfolio was widely diverse in terms of the types of credits, borrower industry, etc. Arthur Andersen said that "The only consistency appears to be the uniqueness of each credit."

Arthur Andersen went on to say that on the basis of these factors and "Our experience in working with the portfolio to date is that the level of complexity and the magnitude of the work required is of the order of 8 to 10 times that suggested in the very limited information provided in the RFP."

Arthur Andersen then proposed that a new fee based on borrower relationships rather than loan files be used. It proposed a rate of $22,160 for the 69 loans it was now calling relationships and provided RTC with the break out of its proposed fees.

July through September 1992

RTC's oversight manager agreed to consider the proposed increase. Over the next few months the oversight manager met with Arthur Andersen to discuss increased fees. The oversight manager told us that he reviewed Arthur Andersen's proposal and discussed it with RTC's financial advisor (Goldman Sachs) and other RTC staff to determine what fees should be allowed. However, the oversight manager did not contact the contracting officer or involve the Office of Contracts until late August 1992.

RTC's CPPM states that formal and informal communication between the oversight manager and the contracting officer are critical to successfully accomplishing contract tasks and safeguarding the interests of RTC. However, the oversight manager did not maintain contact with the contract officer. Further, the CPPM states that the oversight manager is prohibited from

-- soliciting proposals for enhancements to the contract;

-- modifying the contract terms; or,

-- approving cost items not specifically authorized by the contract.

However, the oversight manager failed to follow RTC prescribed policies and procedures. Instead, the oversight manager performed prohibited functions, which included soliciting enhancements to the task order contract, agreeing to modify contract terms, and approving cost items not authorized by the contract.

Late July and August 1992

RTC's oversight manager directed Arthur Andersen to perform work not within the scope of the task order. The oversight manager orally agreed to pay Arthur Andersen an estimated $700,000 plus travel expenses.[3] For this fee, Arthur Andersen was to develop a special derived investment valuation (DIV) methodology for the C&I portfolio and then calculate the DIV for the C&I assets.[4]

Arthur Andersen agreed to do the DIV work and confirmed this by letter to the oversight manager on August 12, 1992. The letter included a description of the scope of work and the payment terms.[5]

Both the oversight manager and Arthur Andersen recognized that the requested work was beyond the scope of the due diligence contract. However, a new task order contract or agreement between RTC and Arthur Andersen was not executed. Furthermore, although required to do so by the task order, Arthur Andersen did not contact the designated Contracting Officer or RTC's Office of Contracts when requested to do work that was not covered by the existing contract. The task order notification letter stated that

> ". . . any direction received which conflicts with the task order scope of services must be immediately brought to the attention of the contract representative."

Arthur Andersen officials explained to us that because the oversight manager had told them he would deal with the Office of Contracts, they did not believe it was necessary for them to do so.

August 20, 1992

A senior asset marketing specialist working with the oversight manager contacted a manager in RTC's Office of Contracts to

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[3]This was based on an estimate of 4,100 hours using various hourly rates for senior partner, professional staff, and clerical staff.

[4]The DIV methodology developed by Arthur Andersen was for non real estate loan assets and thus differed from the existing DIV methodology for real estate assets. This methodology was used by Arthur Andersen to estimate the valuation of the C&I portfolio for RTC.

[5]Work on this effort began July 28, 1992.

determine how Arthur Andersen could be paid for the out-of-scope DIV work. The contracting official said that because of a lawsuit filed by RTC against Arthur Andersen, RTC could no longer contract with Arthur Andersen until that lawsuit was resolved. As a result, there was some question regarding RTC's ability to contract with Arthur Andersen for the out-of-scope work. According to RTC contracting officials, that was the first contact they had with the National Sales Center regarding the Arthur Andersen due diligence contract.

Late August, September 1992

The RTC contracting officer had "numerous discussions" with her supervisor and National Sales Center personnel concerning the out-of-scope DIV work. Arthur Andersen's request for increased due diligence fees was also discussed during this time period. According to the Contracting Officer, part of her role was to complete contract modifications to assist the National Sales Center to achieve its goal of selling assets. Further, during this time period the contracting officer was attempting to gather additional information regarding the necessity and appropriateness of the fees RTC negotiated with Arthur Andersen.

September 3, 1992

Arthur Andersen sought a second, additional increase for its due diligence review rate. Arthur Andersen stated that the additional request was for various factors contributing to incremental time incurred in the due diligence process, beyond those set out in a July 8 memorandum. The increases related to:

> "-the decision to provide detailed supplemental investor files in addition to the initially planned investor files,
>
> -the establishment of the QC [quality control] program implemented by Price Waterhouse and Company,
>
> -the research for and preparation of various analyses requested by the RTC and Goldman Sachs, [and]
>
> -miscellaneous other items."

The second proposed increase added $3,125 to the previously proposed rate of $22,160, increasing the total fee per borrower relationship to $25,285.

September 30, 1992

Arthur Andersen submitted expense billings to RTC for due diligence work and also submitted the first progress DIV billing.

October 4, 1992

GAO started a broad survey examining RTC's efforts to market and sell HomeFed assets.

October 13, 1992

RTC's oversight manager and Arthur Andersen orally agreed to a negotiated rate of $19,990 per borrower relationship. The agreed to rate was based on the oversight manager's acceptance of most of Arthur Andersen's justifications for fee increases. The new rate exposed RTC to additional fees of approximately $1.2 million. The original fee for the work was approximately $190,000.

November 11, 1992

Arthur Andersen submitted the second progress DIV billing and third progress due diligence billing.

December 29, 1992

Arthur Andersen withdrew previous due diligence and DIV billings. It then rebilled for the due diligence and DIV work. The due diligence work was billed as 69 relationships at $19,990 each, for a total of $1,379,310. Arthur Andersen also rebilled an invoice for the DIV work. For that work, it billed 860 hours at $140 per hour, for a total of $120,400.

The National Sales Center was drafting approval of additional funds to ratify out-of-scope and additional services provided by Arthur Andersen, but the approval had not been reviewed by the Office of Contracts.

According to RTC, processing was begun on the invoice with the intent that the invoice would be held by Federal Deposit Insurance Corporation (FDIC) accounts payable until RTC's Office of Contracts authorized payment.

January 6, 1993

The RTC oversight manager sought "Expenditure approval of additional funds, approval of out-of-scope due diligence services to be provided, and ratification of out-of-scope due diligence services provided by Arthur Andersen..." under the existing task

order.[6] The Office of Contracts concurred with the request. The oversight manager justified the additional due diligence fees on the basis of the information provided by Arthur Andersen.

January 15, 1993

The Senior Vice President for Asset Management and Sales approved the January 6 requests. The approval authorized RTC to spend funds up to the amount approved, if allowed under the contract. As of that date, the contract was not modified. Payments could only be made for fees allowed under the original task order contract. The allowable amount for the C&I portfolio under the task order remained at about $190,000.

The task order expenditure authority was increased to provide new spending authority, pending contract modifications, of up to $2.3 million for due diligence and DIV work performed by Arthur Andersen on the C&I portfolio.

January 31, 1993

Even though the contract was not modified, RTC made a partial payment to Arthur Andersen of $120,400 for out-of-scope DIV work.

February 17, 1993

Without a completed modification to the task order contract, Arthur Andersen was mailed a check for $1,379,310 for the due diligence work. According to RTC contracting officials, the invoice was inadvertently paid by an FDIC Accounts Payable Clerk.

February 26, 1993

RTC's Office of Contracts was notified by Arthur Andersen that it had received the $1,379,310 payment.

March 1, 1993

RTC's Contracting Officer requested that Arthur Andersen not deposit the check. The Contracting Officer indicated that RTC would stop payment on the check if it were deposited. Arthur Andersen told RTC's Contracting Officer that the check was

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[6]RTC's Contracting Policies and Procedures Manual (5-5-92) requires separate approvals to execute contracts and to expend funds. Expenditure authority is delegated to RTC program office officials, but contracting authority resides only with RTC's Warranted Contracting Officers. Both approvals are needed before a contractor can be paid.

already deposited and that RTC should do what it needed to do. The payment was not stopped, and Arthur Andersen retained the $1,379,310.

In a meeting with RTC officials, the oversight manager could not explain why there was a wide discrepancy between the number of loans Arthur Andersen identified--389--and what RTC represented in the task order solicitation--69. The oversight manager could not explain why Arthur Andersen's justifications for fee increases included in the RTC's approval memorandum on January 6, 1993, differed from the original scope of work. The oversight manager could not explain the basis of Arthur Andersen's justification for increased fees or the validity of Arthur Andersen's fee estimates for the HomeFed C&I portfolio.

The oversight manager agreed to negotiate a rate increase with Arthur Andersen because the work needed to be done, and rebidding would have interfered with RTC's ability to prepare these loans for a scheduled September 30, 1992, sales event.[7] The oversight manager said that the goal was to complete the work on time, not to worry about the exact cost of performing the work.

March 4, 1993

We briefed senior RTC officials on the various problems related to the Arthur Andersen contract and other RTC contracts at HomeFed. At the time of the briefing, RTC's Contracting Office was still working on the contract modification/ratification for changes to the Arthur Andersen due diligence contract.[8]

March 8, 1993

RTC Vice President for Administration and Corporate Relations sent a memorandum to all RTC employees reminding them that only Warranted Contracting Officers have the authority to contractually bind RTC by engaging private sector firms to provide services or goods to RTC.

March 26, 1993

RTC Office of Contracting officials told us that they no longer intended to complete a ratification or modification to Arthur Andersen's contract. Instead, the Office of Contracts, in

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[7]This portfolio was actually sold on January 13, 1993.

[8]Through a ratification process, RTC can approve after the fact a commitment made by one of its representatives who was not authorized to contractually bind RTC.

conjunction with the Legal Services Division, had created a special task force and procedures for resolving issues pertaining to unauthorized contract/task order commitments by RTC oversight managers. The due diligence and DIV work done by Arthur Andersen was to be included in the review performed by that task force. The task force will make a recommendation to the cognizant RTC Senior Vice President on how the issue should be resolved. The concurrence of the RTC Senior Vice President will be required before the recommended course of action is initiated.

April 15, 1993

When asked why it had not returned the $1,379,310 payment made by RTC in error on February 17, 1993, Arthur Andersen said that RTC had asked for the check to be returned. Because the check had already been deposited, Arthur Andersen could not return it. When asked why it had not returned the funds from the check it received, Arthur Andersen responded that RTC had not asked for the funds to be returned. If asked for the funds, Arthur Andersen said that the decision would be referred to its world headquarters in Chicago to determine what action should be taken.

April 28, 1993

RTC Office of Contracts requested repayment by Arthur Andersen of $1,379,310 for due diligence work and $120,400 for out-of-scope DIV work. The repayment request was made because the payments not covered by the original task order should not have been made until a task order modification was completed.

May 4, 1993

RTC's Office of Contracts special task force had not yet made a decision on the Arthur Andersen billings discussed above.

(247091)

Resolution Trust Corporation

Office of Governmental Relations
Washington, DC 20434-0001
(202) 416-7564

June 15, 1993

Honorable Joseph I. Lieberman
Chairman
Subcommittee on Regulation and
Government Information
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

I am writing in further response to former CEO Albert V. Casey's March 9, 1993 letter to you regarding the Resolution Trust Corporation's contract with Price Waterhouse, which was the subject of your February 19, 1993 hearing.

Upon our negotiation of a 20 percent reduction in hourly billing rates to the RTC by Price Waterhouse (PW) on this contract, the RTC's Office of Contracts initiated a program whereby every fee bill and travel expense statement submitted by PW on the HomeFed project is being completely audited to determine if additional dollars can legitimately be deducted from PW's total bill.

Since the Office of Inspector General had already partially audited PW's bills and activities related to the HomeFed effort for overbillings and potential fraudulent claims to the RTC, we considered it important that the Office of Contracts audit team's efforts be fully coordinated with the OIG staff for whatever independent follow-up action the OIG feels is appropriate.

The reconstruction effort to determine the activities of 1,300 PW personnel and temporaries hired during this project is massive. The audit team is scrubbing and cross-checking every activity by all personnel employed on the engagement. Log-in sheets, travel times and costs, and billing/job classification ratings are all being examined for justification by the RTC's audit team.

PW has, thus far, billed the RTC for fees only up to December 31, 1992. As of this date, PW has not yet resumed submitting bills for fees earned after December 31. PW has billed the RTC for travel expenses also only up through December 31, 1992. PW has revised and resubmitted all previously submitted bills from the beginning of the project. We received these revised bills on May 3. Our review of these revised bills, thus far, has shown that PW has made substantial reductions in their previous bills. Bills for the remainder of the engagement (January 1, 1993 through March 31, 1993) will be coming to us over the next four weeks. Based upon the revisions we have seen thus far, total billings for this engagement will be substantially lower than our January 1993 estimate of $26 million. This means that the total fee bill reduction will be substantially higher than the 20 percent hourly billing rate reduction (then estimated at $4 million) that we negotiated last February.

We expect that final statistics on this matter will not be available until some time in late July or early August. When they are, you will be provided with a complete summary cost analysis and an indication of what follow-up actions, if any, we contemplate. Based on the preliminary findings from its review, on June 3, 1993, the RTC requested its Inspector General to expand its review of possible irregularities in bills and billing procedures used by Price Waterhouse during the course of its 1992 contract with RTC for work at HomeFed Bank, FA.

With respect to the review of the Department of Justice (DOJ) copying contracts, we requested and obtained copies of those contracts from DOJ in an effort to compare both the scope of those contracts, and the cost of the services provided under those contracts. The structure of the compensation plan under the DOJ contracts differs from the RTC contract. The DOJ contracts require the contractors to photocopy documents and then complete a document checklist which is then loaded into a computer database by another contractor to aid in document retrieval.

The copying cost under these contracts ranges from $.03 to $.99 per page depending upon the number of documents, the location of the documents, and whether or not they are machine feedable. Documents such as photographs, blueprint maps, and so forth are billed at cost plus 10 percent. Clerical support is billed at a range of $11.19 to $21.02 per hour.

It is difficult to calculate a per page comparison without reviewing individual DOJ delivery orders to ascertain the number of copies and the specific blend of the above rates. We have requested several sample delivery orders from DOJ of various sizes to be able to calculate cost in various ranges and then compare them to the RTC contract with PW. To attempt a comparison, we will multiply the number of pages times the cost per page and the number of hours times the dollars per hour and calculate a cost per order which can be used to determine cost per page. But, as you can see, this is not an exact comparison in either scope of services or cost.

We hope this information is of assistance to you. If you have any questions, please let me know.

Sincerely,

Peter E. Knight
Acting Director

Shaun F. O'Malley
Chairman & Senior Partner

1251 Avenue of the Americas
New York, NY 10020

Telephone 212 819 5000

Price Waterhouse

1993 JUL 19 PM 7:33

July 15, 1993

The Honorable Joseph I. Lieberman
United States Senate
Washington, DC 20510-0703

Dear Senator Lieberman:

As taxpayers and business people, the 13,000 men and women who comprise Price Waterhouse in the United States, including the more than 500 partners and staff who reside in Connecticut, applaud your efforts and those of your Senate colleagues to reduce government waste, stimulate the economy, provide reasonable and responsible social programs, cut the deficit, and develop an effective partnership between business and government to move this country forward.

For over 100 years Price Waterhouse has been serving the public interest and has played an important role in the partnership between business and government by ensuring, as independent accountants, that public companies fairly present their financial results and by providing a broad range of professional services to help companies, government departments, and government agencies improve their performance, effectiveness, and efficiency.

Our partners and staff are justifiably proud of their contributions and of our collective reputation for honesty, integrity, and objectivity. For that reason I am sure you can understand that we are especially distressed by the continued inaccurate allegations of the media that with respect to our work at HomeFed Bank in San Diego for the RTC, we took advantage of RTC's contracting failures to gouge the American taxpayers and reap enormous and unjustified profits at their expense. Nothing could be further from the truth.

As you are, rightfully, interested in cutting down wasteful government spending, you should also, we believe, have the facts with respect to this matter. Our work for the RTC at HomeFed Bank has been consistently and inaccurately characterized as a massive photocopying assignment. It was not. In fact, if photocopying alone had been the extent of the project, Price Waterhouse would have recognized the inappropriateness of our providing such services and would have declined the engagement.

What the RTC asked Price Waterhouse to establish was a sophisticated system of computerized and manual controls to track and account for the movement of a massive number of loan files passing through the hands of 24 due diligence contractors, financial advisors, and potential investors. These services, often referred to as document management and systems development, included the design, implementation, and use of systems to control the identification, acquisition, processing, tracking, storage, retrieval, and distribution of documents to meet the needs of information users. Actual photocopying comprised only 4 percent of the total engagement, costing approximately 6 cents per copy, not 67 cents.

Even the photocopying itself could never be characterized as the "normal" photocopying service typically provided for 4 or 5 cents per copy. A blanket Department of Justice subpoena on all HomeFed files required additional controls and safeguards to protect the chain of custody. Thus after each file was copied by clerical employees, other clerical employees were required to perform a 100-percent quality-control check by comparing each page of the "shadow" copy against each page of the original. This was necessary to ensure that the file was returned to its precise, original condition and that the "shadow" file was an exact, high-quality duplicate of the original file, down to the last staple, paper clip, tab, and Post-It Note. After clerical employees completed this 100-percent quality review, Price Waterhouse staff members were required to perform the same 100-percent review on a 20-percent sample of the HomeFed loan files that had been copied. Only after these two quality checks had been completed were the original files logged out and returned to HomeFed custody and the "shadow" copies sent on to the due diligence contractors.

Was the elaborate nature of our work merely an example of contractor overkill? Absolutely not. To meet the RTC's requirements, Price Waterhouse operated a three-shift, 24-hour-a-day project, seven days a week. Massive security and quality-control procedures were required to meet the legal and procedural requirements of the DOJ and the FBI.

In February 1993 we voluntarily renegotiated our contract with the RTC. This renegotiation provided the RTC with a 20-percent across-the-board fee reduction on all fees in excess of the $5 million that the RTC originally anticipated the HomeFed assignment would require. This $5-million estimate had been developed before either the RTC or Price Waterhouse were able to determine accurately the actual scope and magnitude of the engagement and before the existence or impact of the DOJ subpoena were known to either party. It is worth noting that on June 17, 1992 Price Waterhouse reported to the RTC that the project would cost between $21.6 and $23.1 million. With that information in hand, the RTC authorized Price Waterhouse to continue its work.

In addition to voluntary renegotiation of the contract with the RTC, we also undertook a thorough review of the billing administration of the HomeFed engagement and the ambiguities created by the RTC's two-page loosely worded contract. In April 1993 as a result of that process, the firm modified its billings to the RTC in connection with the HomeFed resolution. These modifications reduced prior billings by approximately $2 million and resolved all contract interpretation ambiguities favorably to the RTC.

In the course of Price Waterhouse's HomeFed engagement, the quality of our work in San Diego was never questioned, and the RTC was consistently complimentary with respect to our ability to respond effectively to their demanding requirements. Yet our efforts to "do the right thing" and to act as a responsible government contractor have received little notice. This may well be the way things work in Washington, but we believe that as a firm we have consistently behaved in a diligent and responsible fashion.

I would welcome the opportunity to meet with you and discuss this matter further. As an organization with a strong presence in Connecticut, including offices in Hartford and Stamford, Price Waterhouse believes that it has an obligation to ensure that our elected representatives are fully informed in matters such as this one.

Sincerely,

Shaun F. O'Malley

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Washington, DC 20006

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Price Waterhouse

September 27, 1993

Mr. John Nakahata
SH 316 Hart Senate Office Building
United States Senate
Washington, D.C. 20510-0703

Dear Mr. Nakahata:

As we discussed at our recent meeting, enclosed is a letter to Senator Lieberman requesting that our September 1 Statement to the House Banking Committee be incorporated in the printed record of your February 19 hearings. Thank you for the opportunity to have our Statement included in the record of that hearing.

Sincerely,

Gilbert Simonetti, Jr.

Enclosure

Statement of James E. Daley,
Co-Chairman-Operations, Price Waterhouse

before the

Committee on Banking, Finance and Urban Affairs
United States House of Representatives
San Diego, California
September 1, 1993

Mr. Chairman, members of the Committee and invited members of the California Delegation, I am James E. Daley, Co-Chairman-Operations for Price Waterhouse. Price Waterhouse is pleased to have this opportunity to set the record straight about the questions that have been raised concerning the professional services that Price Waterhouse provided to the Resolution Trust Corporation ("RTC") at HomeFed Bank, F.S.B. ("HomeFed"). But we are hardly pleased with the circumstances that have occasioned this inquiry.

Through a global network of firms practicing in 113 countries and territories, Price Waterhouse provides a broad range of professional services to private and public companies, individuals, non-profit organizations, and government. The 12,500 men and women in the U.S. Firm are justifiably proud of our work and of our collective reputation for competence and integrity.

We object strongly to the innuendo and uninformed statements concerning Price Waterhouse's work for the RTC that have been expressed in previous public proceedings and that have appeared in the press over the last several months. These allegations

have unfairly tarnished the reputation of Price Waterhouse and inappropriately raised questions in the minds of the American people and their representatives whether the RTC and the taxpayers received fair value for the services Price Waterhouse performed at HomeFed. Let me say in plain and emphatic words that the work Price Waterhouse performed for the RTC was done well, under extraordinarily difficult circumstances, at a fair price. Armed with the benefit of perfect hindsight critics have identified things that could have been handled differently. That should surprise no one in an undertaking as complex as this one, involving a first of its kind procedure to "resolve" a $14 billion savings institution under extreme time pressures. But I am satisfied that when the full facts are known and understood, an objective observer will conclude that Price Waterhouse acted responsibly and performed competently in full accord with its contractual duties.

I propose to address in this statement the two principal and related issues that have attracted the Committee's and the public's attention: (1) what was the nature of the professional services that Price Waterhouse performed under the direction of the RTC at HomeFed, and (2) were the fees charged appropriate? As a threshold matter, I should note that a fully definitive statement cannot be made at this time. The RTC's normal process of contract administration has not concluded. Also, we under-

stand that the RTC's Office of Inspector General ("IG") will have more to say on these matters.

Of course, the IG has already spoken to HomeFed contract issues, most recently in a document released on June 25, 1993, titled "RTC's Management and Continuity Contractor Contract with Price Waterhouse--Audit Report A93-045." That document, like the IG's earlier public statements[1/] is singularly unhelpful to anyone seeking objectively to understand this issue because the report continues to misperceive and mischaracterize Price Waterhouse's assignment as an engagement to photocopy records--and nothing more. Indeed, if that is your premise, it is little wonder that you would quickly conclude that the RTC did not need the sophisticated skills and services of a major accounting firm to handle such matters. But that premise is dead wrong. Much more was required of Price Waterhouse and much more was delivered.

NATURE OF PRICE WATERHOUSE'S PROFESSIONAL SERVICES

The ensuing discussion regrettably (but unavoidably) bristles with acronyms and jargon because that is how the RTC organizes its work. Simply put, what the RTC set out to do in May 1992 was resolve HomeFed by selling its assets as rapidly as possible, under an experimental procedure that would combine the RTC's Accelerated Resolution Process ("ARP") and its newly

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1/ Hearings before the Subcommittee on Regulation and Government Information, Committee on Governmental Affairs of the United States Senate, February 19, 1993.

developed Cooperative Institution Marketing Program ("CIM"). This meant that the RTC intended to allow HomeFed to continue to operate as a "live" institution under its own management during the same time that due diligence contractors and potential investors would be reviewing HomeFed's assets for sale. It also meant that an attempt would be made to truncate to 5 months or less a normal systematic 12 to 18-month timetable for the resolution process.

Price Waterhouse was engaged as the RTC's Management and Continuity Contractor ("MCC"). As such, it was Price Waterhouse's task to facilitate the activities of 24 contractors and federal agencies who performed or participated in the RTC's prescribed bank asset review procedures. The largest segment of this work related to supporting the four due diligence contractors who were separately engaged to review the institution's loan files and other asset documentation in order to provide potential investors with sufficient information to bid on the assets and to provide the RTC with the information it would need to evaluate bids and to issue any necessary representations and warranties to the purchasers of the assets.

In addition to its assignment to facilitate the activities of the due diligence and other contractors, Price Waterhouse was also to work with RTC on-site management and with the RTC's financial advisors, Goldman Sachs and Morgan Stanley, who had responsibility to organize and package assets to execute the

RTC's marketing and dissolution strategy. To this end, Price Waterhouse was engaged to develop systems and procedures to track bank assets and files through the due diligence process, to establish and maintain so-called "war rooms" containing duplicates of critical loan file data for investor review, and to provide other administrative support to the RTC as required.

It should be readily apparent from this recitation of duties that the work of the MCC, as originally conceived, involved much more than copying documents. It was a task requiring sophistication in system design, management, accounting and financial matters--a task worthy of a professional systems and management organization such as Price Waterhouse. Were it not, we would not have undertaken the work.

More than 30% of the fees under this contract involved the management tasks described above, including computer system development, and such critical functions as due diligence facilitation and quality control. These services are described in greater detail in Attachment 1 to this statement. A quick review will reveal that these management services were significant, demanding a high degree of professional competence in systems management and organization.

Now let me return to the document management tasks associated with the HomeFed assignment. I will discuss what was involved and why the costs were appropriate to the circumstances.

Document Management Services Performed as Management and Continuity Contractor

The first thing to understand about our document management services as MCC is that document management is not simply photocopying. Rather it is a complex process that involves the design, implementation and use of systems to control the identification, acquisition, processing, imaging, tracking, storage, retrieval and distribution of documents to meet the needs of information users. Price Waterhouse has been a leader for many years in the development and application of methodologies to meet the document management needs of a variety of paper-intensive environments. Increasingly, these systems have evolved to make use of enhanced computer search and document retrieval technologies. From this long experience with document management service engagements, including complex litigation support, we know that the nature of the tasks required and the degree of sophistication of the system are very user sensitive. And in this case, the exigencies of the situation and the user's special demands greatly influenced both the design and the costs of the services performed.

Seven principal factors shaped the scope of Price Waterhouse's work and the costs the RTC incurred under this contract:

- First. The sheer size of HomeFed obviously had an effect. HomeFed was the largest financial institution that the RTC had then undertaken to resolve. The large

number of HomeFed loans--approximately 75,000--and the large number of other loans that HomeFed serviced meant that the scale of the due diligence, and the associated document management process, would be larger and more complicated than previously experienced in RTC resolutions.

- Second. The speed with which the RTC had decided to sell HomeFed also impacted the intensity of the services that Price Waterhouse rendered. The timetable imposed by the Office of Thrift Supervision ("OTS") and the RTC required the RTC's due diligence contractors to complete their work by the last week in July 1992, after a late May start, so that potential investors could begin their own file reviews and prepare for a sale no later than September 30, 1992. That schedule placed Price Waterhouse and everyone else involved in this process under extreme time pressures.[2/]
- Third. The novel character of the attempted resolution also influenced costs. As previously noted, the RTC and the OTS had decided to handle HomeFed as an ARP/CIM resolution, a new and experimental process. The RTC

2/ In this respect, it should be noted that Price Waterhouse was not originally selected by the RTC to act as the Management and Continuity Coordinator. Another firm initially had undertaken this responsibility for the RTC, but Price Waterhouse was asked to take over after the RTC determined that the first firm apparently lacked the resources to get the job done.

had used ARP only once before at a S&L one-tenth the size of HomeFed. That institution was operated under the controlled environment of an RTC conservatorship, while the much larger HomeFed was to be permitted to continue operating under its own management. The CIM program envisioned a quick, simultaneous sale of all of an institution's assets; the CIM had never before been completed at <u>any</u> institution. The combination of ARP and CIM was wholly unprecedented. The decision to handle HomeFed as an ARP/CIM resolution, under extremely tight marketing deadlines, meant that the RTC was only able to do limited advance planning for HomeFed's resolution--planning that could have made that process much more efficient for both the RTC and its contractors. And it must be fairly acknowledged that RTC's planning never fully or adequately caught up with the resolution process.

- <u>Fourth</u>. Resolving HomeFed through the ARP/CIM process also meant that the RTC would allow HomeFed to continue to operate as a "live" institution during the same time that due diligence contractors and potential investors were pouring over HomeFed's records in preparation for the sale. By its very nature, the process created several simultaneous demands for the bank's original loan files. HomeFed employees needed the files to

continue the bank's day-to-day operations; due diligence contractors needed the same files to perform their file review work for the RTC; and other contractors (such as law firms) and government agencies (such as the RTC's Office of Investigation) also needed to review the files to perform their work in preparation for resolving the institution. Price Waterhouse's responsibility was to accommodate all of these concurrent demands, preserve the integrity of HomeFed's records, and make the whole process work within the marketing timetable established by the RTC. This added complexity and cost to the process.

- Fifth. Easily the most disruptive factor that influenced the complexity of Price Waterhouse's work--unknown to either the RTC personnel who engaged Price Waterhouse or to Price Waterhouse until after the work had already begun--was the existence of a federal grand jury subpoena that the Department of Justice ("DOJ") had caused to be placed on HomeFed's loan files. This subpoena--the first "blanket subpoena" covering all bank documents the RTC had ever encountered--effectively prevented the RTC, its contractors and potential investors from reviewing or copying HomeFed's loan files except under very strict security procedures designed to ensure an unbroken

"chain of custody" for evidentiary purposes. The safeguards necessary to meet the requirements of the DOJ and the Federal Bureau of Investigation ("FBI")--safeguards which were designed to ensure the integrity of HomeFed's files and to guarantee the DOJ's ability to take subsequent legal actions based upon those files--were extremely complex, very time consuming, and resulted in commensurate costs.

- Sixth. To enhance asset value, the RTC was expected to represent and warrant that the copies of documents relied upon by purchasers were 100% accurate and complete. In essence, purchasers could rescind their purchases if it was subsequently determined that the due diligence files were in any way defective. Thus, elaborate quality control and quality assurance procedures were required to ensure the integrity of the copied files that were to be made available for the use of the due diligence contractors and for potential purchasers.
- Seventh. Lastly, repeated changes in RTC marketing strategies also created many inefficiencies that increased the time and cost of Price Waterhouse's work. Assets were moved in and out of bulk sale packages, complicating due diligence and all the document management activities related to that process. Records

were copied that, due to changes in the marketing approach, were never needed for due diligence. Price Waterhouse had to prepare for tasks that were eventually never undertaken; for example, it had to segregate files for copying, and then integrate those files back into other records when marketing goals changed. Each change in strategy meant a change in procedure and a change in services. Whenever strategies were modified, Price Waterhouse apprised RTC of the resulting cost implications. When HomeFed was unexpectedly placed in a conservatorship on July 6, 1992, the entire thrust of the marketing effort changed.

The preceding points address, in a general way, the question of why the assignment involved the costs that it did and why document management activities ended up accounting for almost 70% of the costs for all services performed under the contract.

I want to discuss in detail the activities comprising the document management function, but before doing so, I want to make one matter very clear. Throughout the course of this contract Price Waterhouse repeatedly offered suggestions for cutting back services and for lowering costs of required procedures. These are well documented in a series of extensive twice monthly "status reports" Price Waterhouse prepared for the RTC. Copies

of these reports have been submitted under separate cover to the Committee's staff.

Certainly tasks could have been completed at less cost had the RTC taken more time to plan the HomeFed resolution before work began.[3/] In fairness, however, these potential contractual economies must be compared to the values attributable to getting the job done quickly. The RTC holds the view that the more quickly it can evaluate, package and sell the assets of a troubled institution, the less will be the exposure and ultimate cost to the American taxpayer. Thus, "speed" is a guiding principle and demand placed on the RTC's staff and its contractors. The Committee must be the judge of whether the RTC properly balanced those two conflicting objectives--speed in the execution of a resolution of an institution versus more careful planning and care in that undertaking--but there would appear to be no doubt in the mind of former RTC President Casey that the right balance was achieved. In February 1993, Mr. Casey advised the Senate:

> [B]ecause of this work of Price Waterhouse and other contractors, we had the due diligence and related work necessary to sell [HomeFed's] assets . . . quickly. As a result, the holding costs and asset deterioration were dramatically reduced . . .

3/ Indeed whatever limited planning did occur, took place before Price Waterhouse became involved. Price Waterhouse was required to start work within 48 hours after being selected as the replacement MCC and after the HomeFed resolution strategy had been decided and the process was underway.

We saved hundreds of millions of dollars. (Emphasis supplied.)[4/]

The Myth of the $0.67 Copy

Much has been made in the press and elsewhere about the allegations that the RTC's contract with Price Waterhouse imposed on the Government copying costs of $0.67 per copy. This is pure myth, although I am troubled to observe that the assertions persist and are inappropriately repeated in the June 25, 1993 report of the RTC's Office of Inspector General.

In fact, the $0.67 per copy attributed by the IG to copying actually relates to a broad spectrum of document management services provided by Price Waterhouse to the RTC in which the physical act of photocopying was only a small part. As noted earlier, document management is a complex process that involves the design, implementation and use of systems to control the identification, acquisition, processing, imaging, tracking, storage, retrieval and distribution of documents to meet the needs of information users. Price Waterhouse's document management work at HomeFed is not remotely comparable to making copies at a neighborhood copy center or a commercial photocopy operation.

4/ Testimony of Albert V. Casey, President and Chief Executive Officer of the Resolution Trust Corporation, before the Subcommittee on Regulation and Government Information of the Senate Committee on Government Affairs, February 19, 1993, Panel 2 Transcript, at 2.

The special needs of the RTC, HomeFed (as an ongoing $14 billion institution), and the DOJ combined to impose requirements for (1) logging and inventory, (2) preparation and reassembly, and (3) quality review, that went far beyond those required in typical document management activities.[5/] They also far exceeded the sophisticated requirements typically imposed on document management activities in civil or criminal litigation, let alone the usual photocopy contract. Another factor significantly contributing to the cost of document management under this contract was RTC's requirement for a number of high-capacity photocopy centers staffed to be fully operational 24 hours per day, and reserved exclusively for its own use under stringent security requirements.

The following discussion will elaborate on each of the special demands attendant to the RTC contract.

1. Logging and Inventory

Among its first priorities as the new MCC contractor, Price Waterhouse worked with the DOJ, the FBI, the RTC and HomeFed to develop procedures to ensure the integrity of the original HomeFed files during the reproduction process. The purpose of these procedures was to develop a system that would create an "audit trail" for millions of documents, insure that no documents were lost or misplaced in the course of the due

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5/ The complexities of these elements of the HomeFed document management process are illustrated in a work flow diagram appended to this statement as Attachment 2.

diligence work, and permit Price Waterhouse partners to testify in court, if necessary. Price Waterhouse eventually drafted a total of 18 chapters of document control procedures which were approved by the DOJ, in consultation with the FBI. These procedures were entitled "Resolution Trust Corporation Accelerated Resolution Program for HomeFed Bank: Document Control Procedures." Each chapter was tailored to a specific group of HomeFed assets or to a specific copy location.

The written procedures needed to satisfy the DOJ's security requirements included elaborate physical controls as well as logging and tracking systems to demonstrate accountability for the subpoenaed HomeFed files from the time that Price Waterhouse received them until Price Waterhouse returned them to HomeFed. Price Waterhouse had to be able to maintain and prove, after the fact, that a complete "chain of custody" for the millions of pages of HomeFed loan files was maintained at all times.

Price Waterhouse was required to set up and maintain several decentralized "express copy centers" in close physical proximity to the files. This decentralization of copying operations, to accommodate the RTC's due diligence contractors and expedite the sales process, increased staffing and supervisory requirements substantially.[6/]

6/ Throughout the project there was a total of 19 copy centers dedicated to RTC's requirements.

To ensure consistency and integrity in file handling, the DOJ procedures did not permit HomeFed to deliver original loan files directly to the RTC's due diligence contractors. Instead, all handling of "live" files had to be accomplished through Price Waterhouse, who was required to maintain written logs to establish the "chain of custody" previously discussed and to satisfy HomeFed's specific demands to provide real time tracking and retrieval of documents to meet HomeFed's ongoing operating needs. In addition, when oversized documents (such as maps) had to be sent off-site to be copied on specialized equipment, the DOJ procedures required that Price Waterhouse staff members accompany the documents to and from the off-site copy location, and that staff remain with the documents during the time they were being copied.

All of these procedures increased the document-handling time and make it impossible to compare this engagement to any traditional document management contract, let alone a simple photocopy assignment.[2/]

2/ As another example of the complexities of this engagement, Price Waterhouse was required to develop a computerized Asset Control Tracking System ("ACTS") to monitor and control tracking of loan and investor files for each asset pool. The system monitored each movement (i.e., an "event") of original, shadow and fiche copies of the loan files and allowed Price Waterhouse and the due diligence contractors to determine the location and status of loan files at any given point in time. Through the course of the contract, ACTS tracked approximately one-half million "events."

2. Preparation and Reassembly

Every photocopy assignment involves some level of preparation and reassembly. But these steps were significantly more elaborate under the HomeFed procedures. The preparation step involved receiving original files and logging them into the preparation operation. Each document was copied twice: the "shadow copy" was used for due diligence review and the other copy, called the "archive copy," was used for later microfilming.

The reassembly step followed the photocopying task. Reassembly involved reconstructing the original files to their exact pre-copying condition through re-stapling and refiling. While the archive copy did not require elaborate reassembly, the shadow copy had to be reassembled to match the original file precisely, since it was critical to work being performed by the due diligence contractors. This matching process meant that (1) the documents and the relationships among documents had to be exactly replicated (i.e., if in the original files, several stapled documents were themselves stapled together, then the shadow copies of those documents had to be fastened in the same way); and (2) any tabs or section dividers in the original files had to be recreated (with appropriate tab descriptions) and inserted into the correct places within the shadow copies.

3. Quality Review

It was tremendously important to the RTC, the due diligence contractors and the potential investors that the "shadow" copy of each HomeFed file--the copy that the due diligence contractors would use to prepare their work product and which potential investors would use to make their own bidding decisions--be a perfect duplicate copy of the original bank loan file. Otherwise, the RTC could not make the necessary representations and warranties to purchasers for asset sales based on photocopied files.

The quality review procedures developed to meet RTC's needs involved two time-consuming steps. First, after each file was copied by clerical staff, other clerical staff employees would perform a 100% quality control check by comparing each page of the "shadow" copy against each page of the original. This was necessary to ensure that the original file was returned to its original condition and that the "shadow" file was an exact (and high-quality) duplicate of the original file, down to the last staple, paper clip, tab, and post-it note. Second, after clerical staff employees completed this 100% quality control check, Price Waterhouse staff members made a second quality assurance check by performing the same review on a 20% to 30% sample of the HomeFed loan files that had been copied. Only after these two quality checks had been completed were the original files logged out and returned to HomeFed custody and the

"shadow" copy of the files sent to Price Waterhouse libraries for delivery to the due diligence contractors.

These quality control and quality assurance procedures were installed in response to the needs of the RTC, the due diligence contractors and potential investors. While some level of quality control is found in a typical document management engagement, virtually none would be provided by a commercial photocopy contractor performing a typical photocopy contract.

4. Utilization of Capacity

During much of the project, the RTC required Price Waterhouse to provide not one but a number of copy centers. It also needed those copy centers to have a very high capacity. At least some of those copy centers were required to operate on a 24-hour basis, necessitating three full shifts of copy operators, supervisors, quality control personnel and other staff. Similar to a public utility which must maintain high capacity for peak demand times, Price Waterhouse was required to maintain high capacity for peak demand times. The RTC understood that the maintenance of such capacity would add to the overall cost. However, this cost was recognized by the RTC as the natural consequence of the ARP/CIM process selected by the RTC for the HomeFed resolution.

The photocopy centers operated for the RTC at HomeFed were unlike any commercial photocopy operation. Commercial photocopy operations are designed to handle the work of many customers

operating on different time deadlines. Such venders can establish and maintain the degree of backlog necessary to permit an efficient "flow" of work through the operation, and, thus, ensure high utilization. At HomeFed, there was no consistent backlog of work conducive to high utilization. HomeFed's employees sent loan files to Price Waterhouse when they could, and their needs--the needs of a $14 billion operating financial institution--set Price Waterhouse's schedule for copying and returning those files.

Just as Price Waterhouse could not schedule work at its convenience to achieve high utilization, it could not take on any "filler" work for customers other than the RTC, which would have the effect of increasing capacity utilization and lowering per-copy costs. Its entire operation was dedicated to one customer only--and that customer's top priorities were timeliness and availability.

A Final Comment on Price Waterhouse's Document Management Services

From the outset, the public's concern about the services Price Waterhouse performed under its contract and the reasonableness of its fees has been grounded in a fundamental error in methodology first made by the RTC's Inspector General in February and one that persists to this day. In short, the IG extracted from the billing data certain costs identified with document management activities and simply divided those costs by the number of photocopies produced during the engagement to

derive a per-page copy-cost. This calculation has the appearance of plausibility, but it is actually deceptive and flat out wrong. As we hope the foregoing discussion has made plain, the document management services provided by Price Waterhouse involved a broad spectrum of activities that went beyond the physical act of photocopying. Also, we have shown that the combined demands of the RTC, HomeFed and the DOJ imposed on Price Waterhouse service requirements and procedures that far exceeded those of a typical document management engagement. And we have identified a number of other factors--we have listed seven--that significantly influenced the scope and complexity of the work performed under this contract and added to its cost. The essential point is this--Price Waterhouse was not simply copying documents for the RTC; we did much more than that and the RTC received much more for the taxpayer's money.

The IG's Misleading June 25, 1993 Report

In its June 25, 1993 report, the IG not only perpetuates its error in methodology, it attempts to buttress its criticisms with highly misleading anecdotal "evidence" suggesting that Price Waterhouse's work under its contract with RTC might have been performed for much less by others. To this end, the IG has questioned why it was necessary for Price Waterhouse to charge more for document management services than the 11.5 cents per copy Xerox charged for files that HomeFed had shipped in error to Xerox for duplication. Except for an almost begrudging

acknowledgment that Xerox might have charged more if it understood better the job it was undertaking, the IG deals not at all with what might be the most significant difference. Xerox was not asked to staff and operate 24-hour dedicated copy centers reserved exclusively for the RTC's needs. Instead, it is reasonable to assume that Xerox did the HomeFed copying as "filler" work in a non-dedicated facility where the HomeFed job could be fit into the scheduled work for Xerox's other customers.

Similarly misleading are observations such as those contained in the IG's June 25, 1993 report suggesting that other firms specializing in litigation copying would have charged much less to perform the RTC's "photocopying"--with a top rate of 19 cents per copy. As a major supplier of litigation document management services, we can state unequivocally that such an assumption is mistaken. The operational, security and quality review constraints inherent in the HomeFed assignment--including the fact that all of these occurred inside a $14 billion operating financial institution--simply would not have been present in even the most complex litigation copying assignment. The IG's "conclusions" are apparently based on informal inquiries of companies as to their general rates. A fair and objective analysis of the document management cost issue requires much more than the off-handed observations that appear in the pages of the IG's report.

At the very least, the IG should be expected to have dealt forthrightly with the RTC's views presented in Senate testimony and in a letter to Congressman Hinchey, a member of this Committee. Former RTC President Casey, in his appearance before the Senate Government Affairs Subcommittee on Regulations and Government Information in February, a full five months ago, set out in significant detail why the elaborate document control and logging procedures imposed on Price Waterhouse to meet the RTC's and DOJ's requirements made it "highly misleading to say the cost of copying was 67 cents per page." The IG's report completely ignores this testimony and its detailed supporting analysis.

Similarly in March of this year, the RTC provided Congressman Hinchey with an extensive analysis of the labor cost components that are related to different phases of the asset file management and reproduction process employed by Price Waterhouse, and contrasted those costs with the copying work done by Xerox. The RTC's conclusion, expressed in two and one half single space pages, is that the work done by Price Waterhouse and Xerox is simply not comparable. Yet the IG continues to make this comparison two months later with no mention of the RTC's earlier analysis.

The IG's June 25, 1993 report falls far short of the independent and objective analysis that we had hoped for, and believe the Congress should require. We are particularly disappointed that Price Waterhouse was not given the opportunity

to comment on the IG's report prior to its release, as we believe is the usual practice and as we were told would be an opportunity accorded to us. Not once did the IG share its conclusions or attempt to discuss its criticisms with Price Waterhouse prior to incorporating them in its formal report to the RTC's Interim Chief Executive Officer. Presumably, we all share the common purpose of seeing to it that reports of this nature are accurate and fairly presented. Had we had an opportunity to comment, we might have avoided additional misunderstanding about the document management services performed and the reasonableness of the incurred costs.

We are particularly troubled that many of the IG's observations in its report are uncorroborated and rely heavily on selective inquiry of unidentified participants with no attempt to establish their expertise or qualifications to make the comments attributable to them. Attachment 3 hereto lays out a point-by-point comment on the IG's June 25 report.

THE APPROPRIATENESS OF PRICE WATERHOUSE FEES

I now come to the second of the two issues I set out to discuss in this statement--the appropriateness of Price Waterhouse's fees. The IG's June 25, 1993 report contains the following observation: "The fact that Price Waterhouse did not pass through subcontract temporary labor charges at cost contributed to . . . excessive costs." This statement appears in a section titled in part "RTC . . . INCURRED EXCESSIVE COSTS FOR

SUBCONTRACTOR MARK-UPS." In this aspect of the IG's report, the analytic deficiencies are even more glaring and more distressing than the portion of the report that talks about charges of $.67 per page for copies.

The written agreement Price Waterhouse had with the RTC was a "time and materials contract" at fixed hourly rates by labor category. All of the rates, including the $17 per hour clerical rate, were competitively procured and represented the market rate for services to be provided under the contract.

That Price Waterhouse engaged large numbers of temporary staff to carry out its responsibilities under the contract should have been no surprise to the RTC and it was not. Consider the logistical difficulties of the task assigned to Price Waterhouse. Retained in May, the firm was required to support the due diligence process for over 75,000 loan files, facilitate its conclusion by July and prepare for a sale no later than September. It was essential for Price Waterhouse to move quickly to meet the RTC's schedule. Within weeks, Price Waterhouse had over 300 of its own staff and approximately 700 temporary employees hired, trained and on the job.

The RTC's Director of Contracts, as well as its Vice President for Administration (with benefit of legal advice), have acknowledged that the RTC "does not question [Price Waterhouse's] legal entitlement to the fees invoiced for clerical and paraprofessional services, nor as a matter of contract policy

does RTC question [Price Waterhouse's] legal entitlement to charge category rates for purchased labor, whether temporary or permanent."[8/] Yet the IG makes no mention of this in its report, implying instead that Price Waterhouse was under an obligation to pass through "subcontract" temporary labor charges at cost. The IG knows or should know that there is no statutory, regulatory, or contractual basis for this idea.

Moreover, the IG knows or should know that in government contracting parlance the hiring of temporary labor does not constitute a "subcontract" nor is it analytically correct to speak of "mark-ups" on the clerical and other temporary employees because there are no mark-ups in a time-and-materials contract. Under a time-and-materials contract, services are required to be reflected at the appropriate fixed labor category rate. The use of time-and-materials contracts is an entirely normal and usual practice for professional service contractors, particularly when at the time of contracting the scope of services is acknowledged by the parties to be uncertain. Direct labor costs do not include the significant indirect costs of the service business

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8/ February 17, 1993 Amendment to the Home Fed Task Order. This conclusion was echoed (but also ignored by the IG) in the testimony of the RTC's President before this Committee and the Senate Government Affairs Committee. Statement of Albert V. Casey, reprinted in Hearing Before the Subcommittee on General Oversight, Investigations, and the Resolution of Failed Financial Institutions of the House Committee on Banking, Finance and Urban Affairs at 61 (Feb. 23, 1993); Statement of Albert V. Casey before the Subcommittee on Regulation and Government Information of the Senate Committee on Governmental Affairs at 6 (Feb. 19, 1993).

and such costs are traditionally recovered in the service provider's hourly rates, be they for professional or clerical services. The RTC did not expect direct labor cost passthroughs, nor did Price Waterhouse contemplate this when it bid its market category rates for labor.

One final point. Please note the faulty logic of the IG's complaint about the "mark-ups" on the temporary employees. There can be no question that the IG would agree that had Price Waterhouse transferred 700 or more of its own clerical employees from around the country to San Diego it would have been perfectly entitled under the contract to bill the $17 contract rate for clerical services, plus expense reimbursement for travel and accommodation costs. However, because Price Waterhouse instead more appropriately hired many local San Diego residents and trained them to do the job,[9/] Price Waterhouse--the IG would seem to suggest--should be entitled only to its direct labor cost. That not only is wrong from a legal point of view, it is highly misleading and makes no practical sense.

Conclusion

Mr. Chairman, as I conclude this statement I wish to assure the Committee that Price Waterhouse regards the issues raised concerning its engagement with the RTC to be most serious. In

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9/ Over 1,100 people from the San Diego area were employed by Price Waterhouse for this engagement.

November 1992, Senior Management of Price Waterhouse initiated a thorough and detailed review of this matter under my direction. As I noted at the beginning of my remarks, I am fully satisfied on the basis of that review that the services that Price Waterhouse rendered under its contract with the RTC were timely, effective and of high quality, particularly in light of the extraordinarily difficult circumstances under which these services were performed. I believe that Price Waterhouse has been unfairly criticized and has somehow become a victim of a much larger dispute concerning alleged deficiencies in the RTC's contracting practices and in the administration of its trust responsibilities.

Much has been said about the size of the contract and questions have been raised concerning how an agreement initially thought by the RTC to involve costs of $5 million turned out to cost more than $20 million. These statements may have created the misimpression that the contract experienced unforeseen and enormous overruns. <u>This is simply not true</u>. In fact, within 30 days after the RTC selected Price Waterhouse to serve as the MCC contractor at HomeFed, Price Waterhouse submitted projections that its fees would range between $21.6 and $23.1 million--projections that have proved remarkably accurate considering the difficulty in anticipating the full scale of the work that was ultimately required. The RTC could have terminated the contract at that stage or sought to renegotiate its terms. It did not--I

believe--because it probably saw those estimates as reasonable given the complexity of the engagement that Price Waterhouse had been asked to perform.

Nonetheless, in February of this year Price Waterhouse determined to voluntarily discount by 20% its fees for all labor categories under the contract to the extent that contract fees exceeded $5 million. At the time of this undertaking, the RTC's President Albert V. Casey characterized our actions as those of a "responsible contractor." We did this in recognition that the scope and magnitude of the MCC service had proved to be substantially greater than either party contemplated at the time of the contracting. Had the parties known that this level of effort would be required, the RTC most likely would have requested, and Price Waterhouse probably would have agreed, to negotiate lower hourly labor rates. So we decided to renegotiate our fees in consideration of the concerns raised about the magnitude of the billings. In essence, Price Waterhouse determined to give the Government the benefit of the bargain it might have made back in May of 1992, but did not. This resulted in a reduction in fees of $3.5 million.

Following this agreement, Price Waterhouse Senior Management concluded its internal review focusing on the billing arrangements of the HomeFed engagement. As a result of that intensive review we have brought to the attention of the RTC certain adjustments to the billing classification of certain Price

Waterhouse employees and some of the temporary help who had originally been categorized on the basis of functions performed rather than on the basis of Price Waterhouse's internal staff classifications. In addition, that review turned up a number of other contract interpretation ambiguities. In each and every instance, Price Waterhouse has resolved the issues in favor of the Government. As a consequence, we have modified our bills to the RTC resulting in further reductions in previous billed amounts. Again, I wish to emphasize that Price Waterhouse has undertaken this action on its own initiative.[10/]

Price Waterhouse has a long and proud history as a contractor to Government. We believe that we have contributed significantly over the years to improving the performance, effectiveness and the efficiency of the Government departments and agencies for whom we have worked. I am satisfied that the work performed by Price Waterhouse for the RTC is in keeping with that tradition of quality work. Where problems have been found we have corrected them. I want to assure this Committee and, through it, the American people that Price Waterhouse takes very seriously its obligations to provide its clients, whether public or private, high quality service consistent with professional

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10/ After making these adjustments, together with the discounts on labor volunteered in February, Price Waterhouse's fees under the RTC contract came to $18.8 million; its expenses were $4.1 million, for a total of $22.9 million. This amount compares quite favorably with Price Waterhouse's estimates provided to the RTC back in May 1992.

standards. In the case of Price Waterhouse's engagement with the RTC, despite significant obstacles and the most trying of circumstances, we believe we have faithfully discharged our contractual duties and that the government received full and fair value.[11/]

11/ Chairman Gonzalez's letter to Price Waterhouse Senior Partner Shaun O'Malley dated August 3, 1993 asked that we describe the services that Price Waterhouse provided to HomeFed through the law firm of Debevoise & Plimpton. These services occurred in 1991, prior to the Federal government's action to take charge of the institution. Our fees were less than $80,000. Price Waterhouse is bound by a confidentiality agreement with Debevoise & Plimpton. Price Waterhouse respectfully asks the Committee to request that firm or the OTS for a description of our services. OTS knew all about these services and we believe RTC did also.

The non-document management services consisted of the following tasks in support of the RTC's sale of HomeFed.

Due Diligence Facilitation

The due diligence process at HomeFed required the due diligence contractors to review and prepare loan document and sale packages on each of more than 75,000 loans within the time frame required for the RTC to meet the OTS's September 30, 1992 sales deadline.

From May through July 1992, Price Waterhouse facilitated the efforts of nine due diligence teams working for four separate contractors; three financial advisors; three law firms; five environmental engineering contractors and one support services contractor. The due diligence teams included hundreds of professionals who played a role in reviewing the HomeFed loan portfolios. Each due diligence team was separately located within one of three buildings. A minimum of two Price Waterhouse or contract professional staff were assigned as liaisons to each team. In most cases, those professionals had relevant experience in real estate or banking.

To make the process work, Price Waterhouse had to design procedures and allocate resources so as to obtain and deliver loan files required by the due diligence contractors with minimal interference to normal HomeFed operations, and to do so in compliance with the complex and extensive DOJ-imposed document handling procedures. The transfer and analysis of electronic data from HomeFed systems to those of the due diligence contractors also had to be performed.

Development and Implementation of Computer Systems

Another aspect of Price Waterhouse's task order at HomeFed was to develop and implement computer systems needed to track HomeFed's assets through the due diligence process as well as to manage that tracking process. These computer systems were designed to provide accurate and timely information to the RTC, HomeFed, the financial advisors, the due diligence contractors and Price Waterhouse about the status of HomeFed's assets as well as information about the production of copies, microfilm and investor files.

Price Waterhouse developed a database that accurately tracked the assignment of bank assets to RTC sales initiatives and due diligence contractors. In this connection, Price Waterhouse had to reconcile its database with HomeFed's own general ledger to ensure that all HomeFed assets were assigned to

an asset pool for due diligence and ultimate sale. Price Waterhouse also had to convert HomeFed's loan servicing information, which HomeFed maintained in several diverse formats, to a consistent format that all due diligence teams could use in their work.

Price Waterhouse designed and developed computer systems to track the movement of loan files through the due diligence process. Price Waterhouse also designed and implemented computer systems to support operation of the war room and the microfilm library. Among other things, the computer systems Price Waterhouse developed produced daily reports for the RTC and its contractors to monitor the due diligence progress to ensure that the RTC's deadlines could be met.

Establishing and Maintaining RTC "War Rooms"

"War rooms," in RTC nomenclature, are reference libraries of information about a S&L's loan files. In preparing to sell a failing S&L, the RTC maintains war rooms so that potential buyers of the S&L's assets can review information about those assets to decide whether and how much to bid for them.

Operation of the HomeFed war room required that Price Waterhouse assist in arranging for space and other facilities to house the HomeFed files, in order to create a physical facility that was quite similar to a large reference library. Price Waterhouse had to establish and maintain controls for access to that facility and its materials, so that potential investors could review HomeFed's files in a controlled and confidential environment. Price Waterhouse had to staff the war rooms with knowledgeable personnel who could fulfill the investors' needs for prompt access to accurate information. And Price Waterhouse had to provide support services, conference rooms and telecommunications equipment, to allow potential investors to do their work with maximum efficiency.

Due Diligence Quality Control

At the RTC's request, Price Waterhouse performed quality control reviews of the work of the RTC's due diligence contractors. This work involved reviewing loan files, on an established but non-statistical sampling basis, for single family mortgages, multi-family and commercial loans, land and other real estate loans, corporate and industrial loans, private banking transactions, and consumer loans. The purpose of this review was to test the completeness and accuracy of the investor review files and the data fact sheets which the RTC's separately engaged

due diligence contractors had prepared from their review of the HomeFed loan files.

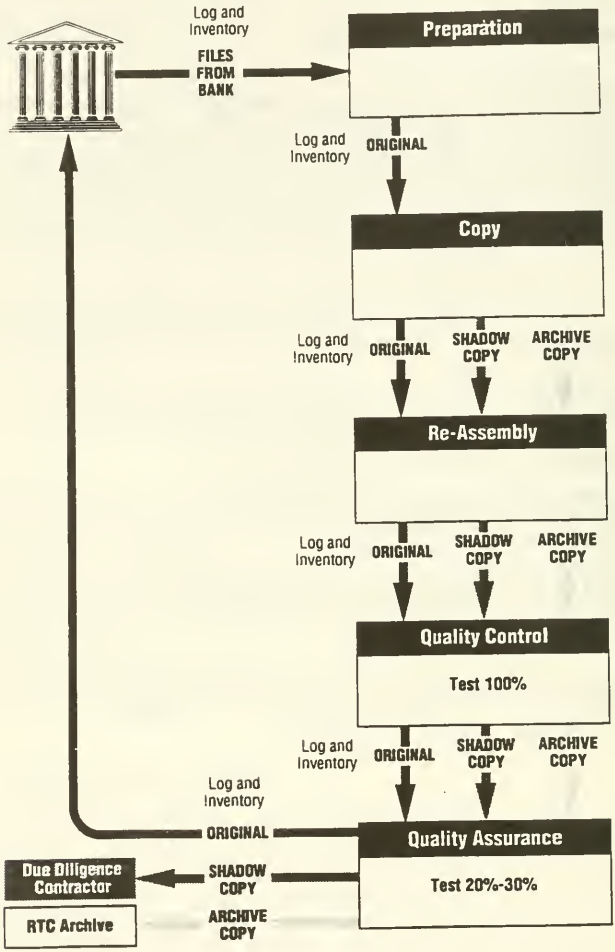
Project Management and Administration

Project Management and administration support of RTC involved interfacing with 24 firms and agencies (Arthur Andersen, Coopers & Lybrand, Kenneth Leventhal, Univest (*asset due diligence reviewers*); Grant Thornton (*facilities and AVR*); Brobeck, Phleger & Harrison, Hogan & Hartson, Castillo & Guevera (*legal advisors*); Goldman Sachs, Morgan Stanley, Solomon Bros. (*financial advisors*); Maxim Engineers, BEM Systems, Thomas-Hartig & Associates, Jaykim Engineers, GRC Consultants (*environmental due diligence reviewers*); GE Capital, Solus (*loan servicers*); RTC, OTS, Department of Justice, FBI, Secret Service (*regulators*); and HomeFed) on a wide array of issues and details relating to the due diligence process. In its role as management and continuity contractor, Price Waterhouse was responsible for planning, scheduling, and issue identification and resolution. Price Waterhouse:

- Conducted and chaired daily contractor status meetings involving representatives from all firms discussing issues affecting due diligence review and production;
- Developed a project-wide management information system to facilitate project completion;
- Participated in the weekly HomeFed Asset Management meetings to coordinate the resolution of bank issues with the due diligence effort; and
- Reported on daily due diligence productivity and issue resolution for RTC, Goldman Sachs, and HomeFed senior management.

ATTACHMENT 2

PW/HomeFed Bank Process



ATTACHMENT 3

COMMENTS OF PRICE WATERHOUSE ON THE JUNE 25, 1993
REPORT OF THE INSPECTOR GENERAL, RESOLUTION TRUST CORPORATION

- The Office of the Inspector General, Resolution Trust Corporation ("IG") "estimates" that the document management portion of the management and continuity contract between the Resolution Trust Corporation ("RTC") and Price Waterhouse could have been done in the range of 10-19 cents per page based on estimates obtained from commercial photocopy firms (Rpt. at 1, 19). The document management services provided by Price Waterhouse are simply not comparable to either a self-service copy center or the services provided by a commercial photocopy operation.

  The special needs of the RTC, HomeFed (as an ongoing institution), and the DOJ combined to impose requirements for (1) logging and inventory, (2) preparation and reassembly, and (3) quality review that went far beyond those required in the typical document management services contract. Thus, the cost of Price Waterhouse's document management services included a relatively small amount for photocopying work and a much larger amount for the special document management services required by the engagement. The RTC has documented for the benefit of the House and Senate Committees the lack of comparability between the work performed by Price Waterhouse and that done under a typical photocopy or document management contract. If the IG disagrees with this analysis, it has the responsibility to say in what respect and to provide analytic support for its views.

- The IG alleges that, according to some RTC and HomeFed employees, the quality of the document management services provided by Price Waterhouse was substandard (Rpt. at 2). On the contrary, former RTC President Casey testified before the Senate that the work of Price Waterhouse was "responsive to the contract's requirements." Mr. Casey further testified that because of the work of Price Waterhouse and the other contractors, the RTC had the necessary due diligence and related work which enabled the RTC to sell assets quickly, thereby saving "hundreds of millions of dollars." Similarly, the Department of Justice complimented Price Waterhouse for its "unflagging cooperation" and its "attention to detail" in developing document control procedures to govern the due diligence process at HomeFed. The IG's report of the opinions of "some" employees cannot pass for an evaluation of the quality of the work performed. In fact, this is the first Price Waterhouse has learned that there is any contrary opinion to the heretofore universal

acknowledgment by RTC officials that Price Waterhouse's work was entirely satisfactory.

It is no criticism of the quality of Price Waterhouse's work for the IG to cite anecdotal evidence from unnamed sources that temporary clerical workers occasionally had idle time. On occasion, there was a certain amount of underutilized capacity in the copy operation at HomeFed, but that was not a function of poor management by Price Waterhouse. The underutilized capacity was a function of the structure of this job and the RTC's need to maintain high capacity for the handling of peak requirements within short timeframes. These factors may demonstrate a lack of full capacity utilization, but they do not demonstrate any quality deficiency in the work. Nor does the IG's observation that temporary clerical workers were observed playing cards "during office hours" indicate a quality problem with the work product. It was no more "unprofessional" for clerical temporaries to play cards while waiting for the next batch of files than it is for firemen to play cards between fires.

- The IG never provided Price Waterhouse with the opportunity to respond to the criticisms of Price Waterhouse contained in its report. This is particularly unfair to Price Waterhouse in light of the IG's procedures and customary practice of conducting exit conferences, as well as the commitment of the IG to Price Waterhouse that it would permit Price Waterhouse to review any criticisms.

- The IG's cost analysis of the work performed by Price Waterhouse does not reflect the adjustments in fees to the RTC provided by Price Waterhouse (Rpt. at 6 n.3). These adjustments were known to the IG at least two months before its report was issued. Nonetheless, as the IG acknowledges, it elected not to revise either its analysis or its numbers in light of these facts.

- The IG's report describes the task order awarded Price Waterhouse as essentially a photocopying and microfilming contract (Rpt. at 17). That conclusion reflects a fundamental misunderstanding about the nature and scope of the services that Price Waterhouse performed for the RTC. Price Waterhouse's task was not a mere photocopying assignment. As the RTC's "Management and Continuity Contractor," Price Waterhouse was engaged, as the title suggests, to ensure the continuity of the project by developing systems and procedures to track bank assets and files through the due diligence process, establishing and maintaining so-called "war rooms" containing duplicates of critical loan file data for investor review, providing

administrative support to the RTC as required, and facilitating the activities of 24 contractors and federal agencies who performed or participated in the RTC's prescribed bank asset review procedures. It was a task requiring sophistication in system design, management, accounting and financing matters. Moreover, the document management services provided the RTC were significantly more elaborate than those that would be required under a typical document management engagement for civil or criminal litigation, let alone those that would be employed under the typical photocopy contract.

- The IG's report implies fault with Price Waterhouse for not passing its temporary labor charges through at cost to the RTC (Rpt. at 21). Price Waterhouse's agreement with the RTC was a "time and materials" contract under which hourly labor rates were competitively procured, and represented the market rate for services to be provided under the contract with RTC. The RTC has acknowledged that is does not question, on legal or policy grounds, Price Waterhouse's entitlement to the fees invoiced, nor is there any legal basis for such a challenge. There is no statutory, regulatory or contractual support for the IG's position. Nor, save for bald assertion, does the IG attempt to provide one.

- The IG's report incorrectly states that the RTC did not require Price Waterhouse to provide productivity measurements and budgets (Rpt. at 24). In fact, the RTC did require budgets and productivity data to be provided. Price Waterhouse also performed floorchecks of its staff. Price Waterhouse, as well as the RTC, expended significant efforts to make the required tasks as efficient and productive as possible, given the structure of the project and its unpredictable work flow.

- The IG's report notes problems with the billing classifications of certain Price Waterhouse employees and temporary help (Rpt. at 25). These are matters that Price Waterhouse brought to the attention of the RTC, not vice versa. In each and every instance Price Waterhouse resolved all issues and problems encountered in favor of the Government.

- The IG's report concludes that overtime hours incurred by Price Waterhouse staff and temporary employees "appears" excessive, but cites no facts or analysis in support of that conclusion (Rpt. at 25).

- The report implies that the large amount of underutilized capacity in the document management operation was a function of the RTC's failure to monitor Price Waterhouse (Rpt. at 25). Monitoring Price Waterhouse would not have affected underutilized capacity, because the flow of work was not under Price Waterhouse's control. As noted above, the fact is that because the work flow was unpredictable, a certain minimum number of employees were required to be on stand-by if the RTC's accelerated resolution schedule was to be met.

- The IG's report incorrectly attributes to Price Waterhouse the poor handling of certain loan files (Rpt. at 26). The IG's contention is obviously incorrect, since the files in question were the responsibility of a contractor other than Price Waterhouse.

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RTC

RESOLUTION TRUST CORPORATION

Resolving The Crisis
Restoring The Confidence

October 29, 1993

Honorable Joseph I. Lieberman
Chairman
Subcommittee on Regulation and
Government Information
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

I am writing in further response to former CEO Albert V. Casey's March 9, 1993 letter to you regarding the Resolution Trust Corporation's contract with Price Waterhouse, which was the subject of your February 19, 1993 hearing and my June 15, 1993 letter to you.

At this time, we have received all invoices related to the Price Waterhouse engagement, and the RTC's Office of Contract Operations has finished a complete audit of those invoices. This letter will summarize the results of our efforts thus far and give you the current status of this matter.

At the time of the February 19, 1993 hearing, Price Waterhouse had submitted fee bills to the RTC for work performed through September 30, 1992 and had submitted expense bills for five bi-monthly periods. At that time, the RTC estimated that fee bills for the entire engagement would be $25 million, which together with an estimated $2 million in expenses, brought the total up to $27 million. The agreement that the RTC negotiated with Price Waterhouse just prior to your hearing called for the RTC to receive a 20 percent reduction on all fees billed in excess of $5 million. This led to an estimate of a $4 million dollar reduction resulting from the negotiation.

In March, when the RTC's Office of Contract Operations began discussions with Price Waterhouse regarding the depth and breadth of the invoice review that was about to commence, Price Waterhouse requested time to review all invoices that had been submitted to the RTC up to that time. At the end of April, Price Waterhouse submitted a package of revised invoices. In that package, every previously submitted invoice was revised downward to a very substantial degree.

In summary, invoices totaling $17 million were revised downward to $14.7 million for a reduction of $2.3 million (13.7 percent). Following that invoice submission, Price Waterhouse submitted invoices for the period from October 1, 1992 to March 31, 1993, which was the end of the engagement. All of these first-time-submitted invoices were on the same basis as the lower-level revised invoices. Based on a review of these invoices, we have determined that the total savings to the RTC from the Price Waterhouse-initiated invoice revisions are approximately $3.5 million.

Apart from the Price Waterhouse-initiated invoice revisions, the RTC's own invoice review has taken exception to $3.4 million in Price Waterhouse billings. The RTC is currently waiting for Price Waterhouse to respond to six letters that have been sent to the company since August, identifying in detail the exceptions we have taken to its billings. We have been advised by Price Waterhouse that it will be responding to us within the next few weeks. While we do not expect that the RTC will prevail on every exception that we have taken, we do expect to prevail on a significant portion of the $3.4 million.

In summary, the RTC feels that, at the moment, the following invoice reductions have been accomplished since the ramifications of this engagement became known to us:

Price Waterhouse-Initiated Revisions	$ 3.5 million
20 percent Discount on Billings	3.4 million
Audit Exceptions	3.4 million
	$10.3 million

Total billings from Price Waterhouse are $23.0 million. From this, we will deduct as much of the $3.4 million in audit exceptions as can be sustained. We expect that discussions to resolve the audit issues will continue over the next two or three months. We intend to vigorously pursue the final stage of this effort to ensure that we receive maximum recovery for the taxpayer.

We hope this additional information is helpful to you. If you have any questions, please let me know.

Sincerely,

Peter E. Knight
Acting Director
Office of Governmental Relations
(202) 416-7314

1801 K Street, N.W.
Washington, DC 20006

Telephone 202 296 0800
Telecopier 202 296 7164

Price Waterhouse

November 22, 1993

The Honorable Joseph I. Lieberman
United States Senate
Washington, D.C. 20510

Dear Senator Lieberman:

I have enclosed a copy of a letter, dated today, transmitting the response of Price Waterhouse to inquiries which have been recently made by the RTC Office of Contracts and the Office of the Inspector General (IG) relating to our billings for work performed at HomeFed. I believe you will find our response consistent with the positions we took at the public hearings conducted in San Diego several months ago, a copy of which I also sent to you.

Our responses are, I am sure you will recognize, at substantial variance with the issues and positions raised by the IG and the Office of Contracts. For that reason, we request that if in the future your office responds to media inquiries regarding our contracts with the RTC for HomeFed, you make these responses available to them or direct such inquiries to us for that purpose. We are also, as previously noted, most willing to discuss these matters with you further, should you so desire.

Sincerely,

Gilbert Simonetti, Jr.

Enclosure

cc/w/encl:
John Nakahata

Office of Government Services
1801 K Street, N.W.
Washington, DC 20006

Telephone 202 296 0800

Price Waterhouse

November 22, 1993

Mr. John Tierney
Director, Office of Contract Operations
Resolution Trust Corporation
900 17th Street, N.W.
Washington, D.C. 20006

OFFICE OF CONTRACT OPERATIONS
HOMEFED AUDIT REPORT RESPONSE

Dear Mr. Tierney:

I am writing to respond to, and express my strong disagreement with, the vast majority of the matters included in the eight letters you have sent me concerning your office's review of various invoices that Price Waterhouse ("PW") submitted to the Resolution Trust Corporation (the "RTC") for professional services rendered and expenses incurred at HomeFed Bank in San Diego under RTC Task Order WRO-075 (Task Order 75). Task Order 75 was issued by the RTC under Asset Valuation Review Agreement No. 700-91-0072-019 dated as of April 15, 1992. That Agreement and Task Order 75, as amended on February 17, 1993, are collectively referred to in this letter as "the Contract".

Three of your eight letters concern fee billings for services that PW rendered through March 31, 1993; these letters question a total of $2,418,121 of PW's fees. Three other letters concern billings for expenses that PW incurred through March 31, 1993; these letters question a total of $1,035,419 of PW's expenses. An additional letter requested further documentation for certain billings and raised certain other issues which were not quantified. Lastly, we have also included herein our response to a letter which raised questions regarding billings of fees and expenses subsequent to March 31, 1993.

The attachments to this letter respond to the principal issues set forth in your letters. But before summarizing our specific comments, let me raise two overriding concerns that cut across all of your letters.

First, your letters do not discuss the Amendment to Task Order 75, which we negotiated with RTC representatives (including yourself) and executed on February 17, 1993. As you will recall, that Amendment released PW from all claims arising out of

or relating to billing issues under the contract, with certain exceptions discussed herein.

You may recall that the origin of that release was as follows: Early this year, the RTC asked PW to make a significant rate reduction for the HomeFed engagement because of the unexpected high volume of services provided. Understandably, PW was not willing voluntarily to reduce billings to the RTC at a time when the results of billing reviews being conducted by both your office and the RTC Office of Inspector General were not known. After extensive negotiations, PW agreed to reduce its hourly rates under Task Order 75, voluntarily and retroactively, which had the effect of reducing billings to the RTC approximately $3.5 million (at the time the amendment was negotiated, the RTC estimated the reduced billings at approximately $4 million, based upon the then projected billings). In consideration for that action, the RTC released PW from any further billing claims under the Contract with certain exceptions. One exception related to adjustments that may result from PW's having provided inadequate supporting documents for its charges or failing to comply with other contractual requirements. The other exception permits the RTC to unilaterally "raise any [other] billing issues under the Contract," but if the RTC does so that will render PW's $3.5 million rate reduction to the RTC "null and void".

It appears that your letters have indeed raised entitlement (rather than documentation and compliance issues) billing issues under the Contract and thereby you appear to have elected to void the $3.5 million billing reduction that PW voluntarily tendered to the RTC in Task Order 75. The Amendment certainly gave the RTC the right to raise such billing issues, but by doing so the RTC forfeited the billing reduction that PW previously made. If it was the RTC's intention to retain the billing reduction, it would have been necessary to recognize that that billing reduction subsumed any other entitlement issues that the RTC might later identify, including many of those identified in your letters, which incidently have less than a $3.5 million impact. We would appreciate receiving an explanation of your actions relating to this matter since it may significantly influence our further actions.

Second, your letters contain no references to statutory, regulatory or contractual principles that support many of your conclusions. To the extent that your preliminary conclusions are based upon any such contract clauses, RTC regulations or other legal principles, we would appreciate knowing that, so that we may take that into account in assessing our own position. To the extent that your preliminary conclusions are not based upon any such objective principles, we must respectfully object to any attempt to impose, post hoc standards of what the Contract entitles PW to be paid for services it has already rendered and expenses it has already incurred.

SUMMARY OF COMMENTS ON FEE ISSUES

Your letters concerning fees deal with many issues other than those resulting from inadequate documentation or the failure to comply with contractual or regulatory requirements. Attachment A to this letter sets forth PW's positions as to those issues, concluding that:

(1) There is no basis for the RTC to decline to pay PW for professional hours worked in excess of 12 hours per day. Neither the Contract nor any RTC regulation that PW knows about arbitrarily limits professional working hours to 12 per day. PW's professional personnel actually worked those hours because they were necessary for PW to meet the RTC's deadlines and fulfill the Contract.

(2) There is no basis for the RTC to assert, under a time-and-materials Contract that sets billing rates by occupational category, that PW cannot adjust an employee's rate when it promotes an employee from one category to another. Other "fluctuations" in our billing rates that your office noted actually reflect instances in which we billed the RTC lower-than-normal rates for client relations reasons. If the RTC would prefer, we can eliminate those fluctuations, but that would involve an upwards adjustment to our bills.

(3) There is no basis for the RTC to decline to pay PW for its project management and administration costs -- which are separately billable to this or any other PW project -- because of a principle that requires firm-wide general and administrative (i.e., overhead) costs to be included in hourly rates under the Contract.

(4) There is no basis for the RTC to decline to pay for services an employee rendered on a day that he or she also traveled. Further, there is no basis on which the RTC has questioned the integrity of PW's time records. It is simply unreasonable for the RTC to assume that an individual cannot travel and work on the same day.

(5) There is no basis for the RTC to decline to pay for clerical hours worked in excess of eight hours per day. Neither the Contract nor any RTC regulation that PW knows about arbitrarily limits clerical working hours to eight per day. PW's clerical personnel actually worked those hours because they were necessary for PW to meet the RTC's deadlines and fulfill the Contract. Moreover, any economic burden of overtime pay fell upon PW, not the RTC.

(6) There is no basis for the RTC to deduct money for clerical staff meal breaks that it assumes, contrary to contemporaneous time records, were taken. There is no basis on which the RTC could question the integrity of PW's time records; accordingly, the RTC's position unjustifiably withholds payment on the basis of unreasonable assumptions as to whether the clerical staff took meal breaks or not.

SUMMARY OF COMMENTS ON EXPENSE ISSUES

Attachment A to this letter also sets forth PW's positions that:

(1) There is no basis for the RTC to decline to reimburse PW's automobile rental expenses. The RTC's travel regulations allow those costs, and the RTC contemporaneously approved PW's use of rental cars upon conditions that PW satisfied.

(2) There is no basis for the RTC to decline to reimburse off-site supply costs, where there was no RTC facilities contractor to furnish supplies. Such charges are allowed by the Contract and were approved by the RTC in advance.

(3) PW's contemporaneous records adequately support other questioned expense charges.

SUMMARY OF OTHER ISSUES

Attachment A to this letter also sets forth PW's positions that:

(1) PW challenges as erroneous the RTC's interpretation of its travel regulations as they relate to particular reimbursements. Further, PW did not collect more per diem reimbursements from the RTC than it paid to its staff. Because of differences between PW's staff expense reimbursement policies and those of the RTC, based on tests which we believe to be representation of the total reimbursements, PW paid more out-of-pocket costs to its staff than it billed to the RTC.

(2) The basis for billing for services subsequent to March 31, 1993 is entirely appropriate in the circumstances.

(3) PW does not understand the RTC's intentions in noting that a few immaterial mistakes or corrections were made on a handful of time sheets. In an

engagement of this magnitude, such a small number of clerical errors in timekeeping records is rather remarkable.

* * * * * * * * * * *

As a responsible professional service firm and government contractor, prior to submitting final invoices to the RTC, PW took the initiative to resolve all matters that are of legitimate audit interest to your office. As you know, PW voluntarily rebilled the HomeFed engagement to give effect to those matters, resolving each of them in the RTC's favor.

PW would be pleased to meet with you and your colleagues to discuss further the issues raised by your letters and to encourage full and prompt payment of all of PW's overdue invoices, with interest.

Sincerely,

Edward J. Haller

Attachments

cc/w/attachments: Ronald Hauben
David Johnson

ATTACHMENTS

Attachment A	Price Waterhouse Detailed Comments on RTC Audit Reports Re HomeFed
Attachment B	Price Waterhouse Response to Inspector General Letter Re HomeFed Dated October 1, 1993
Attachment C	TPS Imaging Subcontract August 7, 1992
Attachment D	Response to Missing Timehseets
Attachment E	Per Diem Certification

ATTACHMENT A

Price Waterhouse
Detailed Comments on RTC Audit Reports
Re HomeFed

ATTACHMENT A

PRICE WATERHOUSE DETAILED COMMENTS ON
RTC AUDIT REPORTS RE HOMEFED

PREFACE

Price Waterhouse/RTC Contacts

During the course of our performance of work at HomeFed, we took instructions and directions principally from the following RTC individuals:

Emily Ann Hewitt
Karen Szymanski
William Rolle
Robert Montagne
Frank Capotosto
David Moore
Elliott Revere
Jack Tavernier

With respect to contractual matters, we had discussions with Mr. David McDermott prior to the February 17, 1993 amendment. During the amendment negotiations, and subsequently, we had discussions with:

Albert Casey
William Rolle
Lamar Kelly
Tom Horton
Steve Hanas
David McDermott
Dexter Sydney
John Tierney

These individuals are referred to herein as the RTC or RTC representatives.

Response to Inspector General Letter Re HomeFed

In addition to the comments included herein, we incorporate by reference, and request that you refer to, the letter included in Attachment B for further comments related to certain matters included in your letters.

FEES

Billings of More Than Twelve Hours Per day - $233,210

RTC Action

Without contractural or regulatory authority, the RTC disallowed costs related to professional staff hours that exceed a 12 hour work day on the basis that an individual cannot be effective after working 12 hours.

PW Position

The RTC has offered no rational, contractual or regulatory basis for their actions. These costs were incurred in the performance of the contract. Our efforts were in direct response to Contract clause 14.13, Time of the Essence, which states that a contractor's failure to meet applicable deadlines shall constitute a material breach of this contract. Further, the Contract does not specify that employees are unable to, or should not, work in excess of twelve hours per day. This project required a substantial initial effort during start-up. Contributing to this effort was the irregular flow of work from the RTC and the changes in RTC requirements. Our analysis of your audit letters indicates that 71.5% of the total hours questioned occurred in the periods from project inception until July 31, 1992, the start-up period of the Contract. All hours worked have been documented by our time sheets, and which were necessary in order to adhere to the tight schedule that the RTC imposed on us. Under a time-and-materials contract, these hours should be paid at the applicable hourly rates.

Changes In Billing Rates - $320,709

RTC Action

The RTC questioned all billing rate changes during the project on the erroneous assumption that any change in billing rates must be justified by an appropriate change in the person's responsibilities.

PW Position

We disagree with the disallowance primarily because the RTC's rationale is contrary to the advice and contract interpretation given to us by the Contracting Officer. The Contracting Officer advised PW to bill strictly in accordance with PW's internal labor categories, unless the RTC gave approval, on a case-by-case basis, for other rates. Based on this advice, we adjusted all labor rates in our revised billings on April 30, 1993, to reflect the category rates.

If a person was promoted during the contract period, that person was billed at his or her new category rate. Such a billing practice is consistent with the provisions of the contract and with the manner in which government contractors bill labor costs under T&M contracts. Accordingly, we believe that the billings in question were in complete compliance with the terms of the contract.

Administrative Hours - Billings for Administrative Hours - $580,833

RTC Action

The RTC improperly characterized direct project management expenses as general and administrative overhead expenses. Therefore, RTC disallowed all time charged to project management and administration. The RTC's position is based on an erroneous interpretation of Article IV of the Contract which states that RTC will not reimburse PW for costs associated with "general and administrative overhead."

PW Position

The RTC's premise for disallowing project management and administration costs is in error. Direct costs related to project management are directly related to the performance of this contract, were appropriately charged, and were not included in our hourly billing rates. In our proposal dated May 10, 1992, project administration was identified as a separate area of this

project. Exhibit IId of the proposal specifies the duties required of the Project Administration function and identifies it as a direct charge to the contract. The project management fees that we billed were incurred in the direct performance of the contract. Thus, these costs are normal costs directly associated with the work being performed.

Under PW's accounting system, general and administrative costs are those costs related to the firm-wide management of PW, and these general and administrative costs are included in our billing rates. However, the incremental direct costs associated with management of a specific project are not included in our billing rates. PW's procedure is traditionally used by government (and commercial) contractors. Project administration entails specific duties of direct benefit to a contract. It is PW's policy to bill all charges incurred for a specific project directly to that project. It is important to note that PW's accounting treatment for project administration costs on this RTC contract is consistent with its accounting practices for other clients. Moreover, such practice is uniformly followed in the government contracting community.

Hours Billed on Travel Day - $239,555

RTC Action

The RTC has unreasonably and without contractural authority questioned all staff labor costs for days on which the staff were in "travel status" and the supporting documentation for their travel vouchers does not identify their arrival and/or departure times.

PW Position

We disagree with the RTC's position because it ignores the validity of the staffs' signed time sheets. Labor hours are not billed from expense reports; they are based on time sheets signed by the staff and approved by the supervisor as to the hours worked. It is inappropriate for the RTC to deny reimbursement for hours incurred on the project solely on the basis that the staff did not meet an administrative requirement to include the hour of arrival or departure on his or her expense report. To draw a corollary between the expense report and properly recorded hours on the time sheet is inappropriate. Such a position implies that the time sheets were unreliable. In the absence of such proof, we insist that such hours be paid at the applicable hourly rates.

"Excessive Overtime" for Subcontracted Clerical Labor - $231,034

RTC Action

Clerical labor was primarily utilized in the copy centers which operated on eight hour shifts. The RTC erroneously concluded that at the beginning of each shift, an entirely new pool of individuals replaced all individuals from the prior shift; and accordingly disallowed all clerical hours in excess of eight per day.

PW Position

Our position is similar to that expressed regarding the professionals who worked in excess of twelve hours per day. Clerical staff worked longer than ordinary hours in direct response to the initial start-up requirements of the project, the irregular work-flow from the RTC, and the Time-of-the-Essence Contract clause. The majority of questioned clerical overtime occurred in the same proportion as the professional employees, i.e., nearly all the hours were incurred in the first few months of the project. All of these hours are legitimate and should be paid.

Virtually all of the clerical "overtime" falls into two major categories. First, the work of supervisory clerical employees was not limited to eight-hour shifts. Supervisors frequently worked shifts of approximately twelve hours per day to ensure continuity and quality control. Thus, there is no basis to question the longer-than-usual workdays that PW expected of these supervisory clerical employees. Second, non-supervisory clerical employees often worked more than eight hours per day. At times, the volume of the work required additional hours to accomplish the tasks required by the contract. Due to the time demands of the job and the irregular flow of work to PW, it is not unreasonable that such additional hours were needed. Thus, the hours worked in excess of a given shift were necessary and reasonable. Accordingly, the resultant hours are appropriate and should be paid.

Further, PW billing rates for clerical hours in excess of eight per day did not increase. PW bore the incremental cost (overtime at time and a half or double time) of staff who worked these longer days. Obviously, PW would not have incurred such additional costs unless we were satisifed that the work that was performed was necessary.

Billings for "Meal Time" - $236,132

RTC Action

Without contractural or regulatory authority the RTC disallowed a half hour for all time worked in excess of four consecutive hours if the staff time sheet did not include a sign-in/sign-out period for a meal break. The basis for the RTC's disallowance centers on the erroneous premise that it is unreasonable for clerical employees to work more than four hours without taking a meal or other break.

PW Position

We disagree with RTC's premise. We believe that it was common for an employee to work more than four hours without a formal meal or other break. Because of the work required to be accomplished, the importance of the initial start-up activities, and the irregular work-flow from the RTC, it was not unusual for employees to work more than four consecutive hours without taking breaks. Many people simply skipped lunch or ate lunch while they were working rather than delay the project. Such dilligence should be rewarded not penalized. Here, too, the RTC erroneously assumes that the time sheets do not accurately reflect the time worked even though the time sheets were contemporaneously prepared and approved. The RTC provides no objective or contractual basis for disallowing these costs.

Billed Hours Exceed Time Sheet Hours - $576,648

RTC Action

The RTC has questioned professional hours billed ($218,488) and clerical hours billed ($358,160) on the basis that billed hours were not supported by appropriately completed time sheets.

PW Position

With few exceptions time sheets supporting the billed hours are provided under separate cover. See Attachment D for details. The remaining exceptions continue to be pursued. Based upon an analysis of the results of our effort and RTC's analysis, it would appear that PW is entitled to an increase in our billings of at least $26,815.

EXPENSES

"Unjustified" Ground Transportation - $330,077

RTC Action

The RTC has questioned all costs associated with car rentals on the mistaken assumption that Price Waterhouse did not obtain advance authorization from the Contracting Officer to rent cars. Such questioned costs cover rental costs, parking fees, and fuel.

PW Position

Our position is that all car rental and related costs are allowable because they were properly approved and documented. Car rentals were necessary for this project and although advance authorization was not required by the terms of the contract, it was nonetheless obtained. The FDIC/RTC Travel Regulations (Parts 3.0 and 3.1.2) permit the use of rental cars for travelers assigned to duty stations more than thirty miles from their residences.

Importantly, in RTC's meetings with its contractors during June 1992, car rentals were among the administrative issues the RTC addressed. It was at these meetings that the PW car rental policy was reviewed and approved by the RTC contemporaneous with its implementation. The policy which was utilized during this contract, required a ratio of three travelers for each rental car. The actual ratio achieved on the HomeFed project was 4.2 to 1, which exceeded the approved standard of 3 to 1.

Thus, the rental of cars on this project was approved in advance (even though not required), prudently managed and as a result the costs are deemed reasonable and allowable.

Purchase of Supplies - $10,870

RTC Action

The RTC erroneously questioned the costs billed on the basis that supplies were not a reimbursable contract expense.

PW Position

The operating supplies purchased were specifically required to perform the HomeFed project. The supplies in question were required to establish remote operations in Sacramento, Dallas or Orlando. The supplies required for these locations could not reasonably be acquired through the San Diego administered imprest fund on a timely basis.

The practices followed to acquire and charge operating supplies were consistent with our proposal and were subsequently ratified by the RTC. Our proposal (dated May 10, 1992) stated, "Out of pocket expenses will be significant on this project due to the multitude of required copying, supplies, maintenance, and other operating costs." Consistent with this requirement, Price Waterhouse was to be given an expense advance for these expenses and that actual expenses paid would be reimbursed semi-monthly, along with our labor charges. Although the RTC never provided the advances, the expenses are nonetheless properly reimbursable.

During a meeting on June 8, 1992, a representative of the RTC approved the direct charging of supplies required to start-up a new area.

Parking Costs for Local Travel – $40,230

RTC Action

The RTC unreasonably disallowed these costs on the basis that they were not allowable under the contract.

PW Position

We recognize that parking costs for local employees are not a routine expense. However, these parking costs were incurred to provide parking for personnel working odd hours in an unsafe area. We believe staffing the project would have been exceedingly difficult if workers were expected to take the uncompensated personal risk of finding safe and reliable parking near the project site. Furthermore, the RTC agreed to, and did, bear the cost of on-site parking for many project staff. In our opinion, such costs were reasonable under these circumstances.

TPS Imaging Subcontract Costs - $344,383

RTC Action

These costs were disallowed because a copy of the contract was not provided.

PW Position

A copy of the contract, which was reviewed on-site with RTC representatives prior to execution, is enclosed as Attachment C.

Arrival/Departure Times Not Provided - $16,677

RTC Action

The RTC disallowed per diem expenses of $16,681. The basis of the disallowance was that arrival/departure dates or times were not documented by employees; therefore, the entire per diem claimed for those days was disallowed.

PW Position

We acknowledge that times of arrival/departure were not always recorded by staff on expense reports. However, other supporting documentation exists. We reviewed 100 of the 530 questioned per diem costs because time of arrival or departure was not recorded. Our review encompassed $3,767 of the $16,681 of questioned billings. Based on our review, 75% of the questioned expense billings are fully documented as to arrival and departure times as evidenced by other data attached to the travel expense vouchers, such as:

- hotel bills that show check-in time
- airline tickets which list flight numbers, departure city, and in some cases arrival times
- other independently prepared supporting documentation which supports the fact that travelers were entitled to per diem for at least part of the day.

Although supporting data for the remaining 25% of the billings were not shown, other available data supports the likely times of arrival and departure.

Moreover, the contemporaneously prepared time records provide conclusive evidence that the employees involved were, in fact, working at the site and, therefore, at least a portion of a full day's per diem is allowable. Time records establish that time was actually worked on the days of arrival or departure. Each staff member was required to record all hours worked on time sheets, which were approved by an appropriate supervisor and billed to the RTC. Since time recorded and billed for days other than arrival/departure days has been accepted by the RTC, it is our contention that at a minimum PW is entitled to per diem reimbursement based on the number of hours worked on travel days. It is our position that the time sheets properly reflected hours worked. Therefore, the per diem for these arrival/departure days should at least be related to the hours worked.

"Unjustified" Lodging Charges - $12,443

RTC Action

Based upon its inadequate investigation the RTC questioned (1) lodging located at distances deemed unreasonable from the work site, and (2) lodging "held over for days, and weekends" during which employees traveled away from San Diego."

PW Position

We do not understand the basis for the RTC's position. We reviewed, on a random test basis, the data supporting the RTC identified audit exceptions. Our review revealed that most of the questioned lodging was at RTC sites in San Diego and Dallas and thus should not have been questioned at all. Other lodging was related to staff who traveled on weekends. We compared their actual lodging costs with the costs they would have incurred had they stayed in San Diego for the weekend. In all cases, the actual lodging costs billed to the RTC were the lesser of the costs that would have been incurred if they stayed in San Diego. We thus conclude that all of the billed lodging costs are allowable.

"Unjustified/Excessive" Charges Suspended - $31,963

RTC Action

The RTC has not provided any basis for questioning of the specific costs.

PW Position

To properly respond to the RTC, we must be provided with the specific expenses, the amounts being questioned and the rationale for the disallowance. Absent such information, we continue to believe that such billings are fully allowable.

Staff Present At Worksite Less Than 14 Days - $172,439

RTC Action

The RTC asserts that Price Waterhouse was erroneously reimbursed for travel expenses for staff who did not meet the requirements of the RTC General Travel Regulations. This conclusion was based on an inappropriate interpretation of Section 2.5, Extended Duty Travel, which states "...you may be reimbursed for returning to your residence every second weekend during the course of extended travel."

PW Position

First, the cited regulation was revised on December 17, 1992 to allow all travel expenses for employees on extended travel (Section 2.3). As a result of this revised regulation, we believe that the entire amount of questioned travel costs occurring after December 15, 1992 ($11,139) are allowable and should be reinstated by the RTC.

Second, with respect to the remainder of the items questioned, we reviewed every fourth item or 24% of the total questioned dollar amount. We conclude that the RTC findings are inaccurate for the following reasons:

1. For employees whose residences were in California and Arizona, we compared the cost of airfare to and from their residences with the cost of hotel and per diem expenses if the individual stayed in San Diego. The challenged bills are for the lesser of the two amounts.

2. In other cases, the employees met the two week requirement prior to traveling. The RTC analysis did not consider the effect of traveling in one period and billing in another. In order to accurately analyze the two week requirement, it is essential to consider the effects of travel in periods before the period being billed. We reviewed the actual travel, without regard to when it was billed, and concluded that the two week standard had been met.

3. A portion of the cost questioned relates to "Key Employees" designated for the HomeFed project. A May 13, 1993, memo identified the primary individuals who were responsible for key project areas and did not require them to be on site full-time. We found that these individuals were included in the amounts questioned.

Based upon the results of our tests we believe these billings meet the criteria established by the RTC's regulations.

Mileage "Not Justified" - $9,586

RTC Action

The RTC has neither identified the specific items questioned nor provided the rationale for questioning of the costs.

PW Position

The RTC report cited 161 items, of which we selected 78 for review. Of those selected, only 30% even had expenses related to mileage, and those expenses were proper. Consequently, we are unable to respond meaningfully to the costs questioned. We continue to believe all identified costs are proper.

Out of Period Billings - $56,383

RTC Action

The RTC has inadequately investigated and evaluated questioned expenses which were incurred in one period and billed in a subsequent period.

PW Position

Based on our review, we conclude that the RTC findings are unsupported. The billing of expenses incurred in prior periods is allowable to the extent that the expenses are billed within six months of incurrence.

Shipping Charges - $10,368

RTC Action

The RTC erroneously questioned all shipping charges on the basis that documentation was lacking.

PW Position

Based on our review of all eight items questioned, we determined that the billings were properly documented, and were incurred in accordance with the requirements of the contract.

OTHER ISSUES

Per Diem

The RTC has requested written certification stating that, for the entire period of the engagement, the amounts paid by PW to individual travelers for per diem related expenses are no less than the per diem amounts billed to RTC for those periods. Although we do not agree that the RTC's request is based on either a proper interpretation of its travel regulations or supported by any other contractual requirement, we have elected to voluntarily provide such certification in an effort to expeditiously resolve this matter. An executed certification is included in Attachment E. Once again, it is our contention that the RTC has no contractual or other authoritative basis for its assertions.

Project Costs Incurred After March 31, 1993 / Allocation of "Billing" Costs

The RTC questions why PW submitted invoices for costs and fees incurred after March 31, 1993; questions generally the manner in which those post March 31, 1993 fees and costs were determined; and questions the entitlement of PW to any fees associated with preparation of invoices either before or after March 31, 1993.

1. Entitlement to "Billing" Costs. As noted, "billing" is not an overhead or general and administrative cost under this contract. PW consistently treats the incremental, direct costs associated with preparation of project billings as a direct project cost, and that is precisely what was done here. Indeed, RTC was well aware that a) it had imposed on PW unique billing formats and protocols (including specifically formatted project time sheets and expense reports); b) PW needed to design a new and separate computer system to manage the detailed information requirements for RTC HomeFed billings; and c) PW had to assign (and in some cases retain for this project) designated extra staff and other resources to meet RTC's billing requirements. In fact, the anticipated significant cost of project billing was one of the reasons that an entire section of PW's project proposal addressed project administration and project management activities.

2. Post March 31, 1993 Costs. In a project of this size and complexity, no person could reasonably assume the activities necessary to close down the project and literally "stop on a dime". Yet that is precisely the RTC's rationale apparently for rejecting billings for necessary project related close down activities after March 31, 1993, the date on which the day-to-day project activities were formally transitioned to RTC.

   After March 31, 1993, PW issued status reports, closed and finalized task orders, documented results, prepared work papers, shipped project related files to storage, completed billings and otherwise "cleaned up" and "wound down" the prior eleven months of activity. All of these tasks were necessary, reasonable, and encompassed by the terms and conditions of RTC's Contract. None of these tasks could reasonably have been completed by March 31, 1993.

   We recognize some of the post March 31, 1993 activity related to completing billings for periods after September 30, 1992 (fees) and July 31, 1992 (expenses). But for the prolonged controversy within RTC about PW's earlier billings, much of the later period billing would have been completed long before March 31, 1993. However, the diversion of PW's billing resources for several months resulted in a delay in our completing the later period billings until after March 31, 1993.

   You have also requested further information regarding time incurred in "efforts to finalize the task order and contract". As you are aware the task order expired December 31, 1992. The time in question was incurred at the direct request of your representatives to prepare estimates and other data supporting a proposed task order amendment to extend the funding and execution date. At your direction that effort was subsequently aborted.

Allocation of Billing Costs. By letter dated July 17, 1993, Price Waterhouse submitted to the RTC its "final" billings for its services in connection with the HomeFed engagement. In our letter, we noted the following:

- To avoid further controversy respecting Price Waterhouse's HomeFed billings, we undertook a comprehensive review of all of our billings, which review resulted in a resubmission of our fee billings for the period from project inception through September 30, 1992 and our expense billings for the period from project inception through July 31, 1992 (the "earlier period billings").

- The resubmitted earlier period billings include the fees and expenses incurred in connection with the initial preparation of the earlier period billings.

- The rebilling process was completed in April 1993 (revised bills are dated as of April 30, 1993). The RTC has not been billed for any time and expense associated with Price Waterhouse's review and rebilling of the earlier period billings.

- With the completion of the rebilling process, Price Waterhouse turned its attention to the process of initial preparation of the "later period billing" (after September 30, 1992 for fee billings and after July 31, 1992 for expense billings).

- Due in large part to the politically charged environment in the Spring of 1993, the process of preparation of the later period billings was more rigorous than might otherwise have been the case, and was not completed until early July 1993.

- The RTC has only been billed for the time and expenses through May 15, 1993 associated with the preparation of the later period billings; and has not been billed for the time and expenses from May 16, 1993 through July 1993 associated with that effort.

- By absorbing the cost incurred after May 15, 1993 in the preparation of the later period billings, Price Waterhouse has essentially significantly discounted the cost of the preparation of the later period billings.

Price Waterhouse has no legal or contractual obligation to discount the cost of its preparation of any billings. Just as was the case with respect to Price Waterhouse's absolute right to bill the RTC for initial preparation of the earlier period billings, Price Waterhouse is fully entitled to bill the RTC for preparation of the later period billings.

The decision not to bill the RTC for the cost incurred after May 15, 1993 in the preparation of the later period billings was based upon RTC's representations at that time and in connection with the negotiation of the February 1993 contract amendment that: a) RTC was proceeding in good faith to review Price Waterhouse's billings; and b) RTC did not intend to raise further billing issues (i.e., those for which its position lacks any legal or contractual support). Further, the decision presumed the continued good faith conduct of RTC. Lastly, we would be pleased to have a representative of RTC visit our Washington office for the purpose of examining work paper documentation of how these costs were determined and allocated.

ATTACHMENT B

Price Waterhouse Response
to Inspector General Letter
Re HomeFed Dated October 1, 1993

1801 K Street N W
Washington, DC 20006

Telephone 202 833 7932

Price Waterhouse

October 1, 1993

Mr. Kurt W. Hyde
Deputy Assistant Inspector
General for Audit
Resolution Trust Corporation
1735 N. Lynn Street
Rosslyn, Virginia 22209

Dear Mr. Hyde:

I am writing to respond to your letter to me dated August 20, 1993 concerning your office's analysis of the revised invoices that Price Waterhouse ("PW") submitted to the Resolution Trust Corporation (the "RTC") for professional services rendered at HomeFed Bank in San Diego under RTC Task Order WRO-075 ("Task Order 75"). Task Order 75 was issued by the RTC under Asset Valuation Review Agreement No. 700-91-0072-019 dated as of April 15, 1992. That Agreement and Task Order 75, as amended on February 17, 1993, are collectively referred to in this letter as "the Contract."

This response to your August 20 letter takes into account the exit conference that you, Ms. Cindy Ecker and Mr. Ron Davis conducted with our legal counsel, Ronald B. Hauben of our National Office and David R. Johnson of Gibson, Dunn & Crutcher, on September 9, 1993. This response is submitted in accordance with the timetable that you and Ron have discussed.

Pages 1-7 of this letter set forth general comments that PW has regarding the overall audit goals and methodology that your office has employed in auditing PW's HomeFed invoices. Thereafter, pages 7-26 of this letter address the ten specific issues raised by your August 20 letter, in sequence.

We respectfully request that this response, in its entirety, be included in your final report when issued.

GENERAL COMMENTS

The Contract that governs the PW's HomeFed engagement is comprised of the Asset Valuation Agreement, Task Order

75 thereunder and an Amendment to Task Order 75, which PW and the RTC executed on February 17, 1993. Your August 20 letter gives no indication that the IG is aware of the terms of that Amendment which, among other things, released PW from all claims arising out of or relating to "billing issues under the Contract." That would certainly include substantially all of the issues that your office has identified in its August 20 letter.

The origin of that release was as follows: In early 1993 the RTC asked PW to make a significant price concession for the HomeFed engagement. Understandably, PW was not willing voluntarily to refund money to the RTC at a time when the results of billing reviews being conducted by both your office and the RTC Office of Contracts were not known. After extensive negotiations, PW agreed to reduce its hourly rates under Task Order 75, voluntarily and retroactively, which had the effect of refunding approximately $3.5 million to the RTC (at the time the amendment was negotiated, the RTC estimated the refund at approximately $4 million, based upon then-projected billings). In consideration for that action, the RTC released PW from any further billing claims under the Contract, with certain exceptions. One of the exceptions permits the RTC unilaterally to "raise any billing issues under the Contract," but if the RTC does so (save for routine audit issues such as the mathematical accuracy of invoices), that will render PW's $3.5 million voluntary price concession to the RTC -- "null and void."

We mention this clause to you because the RTC appears to have elected to raise conceptual (rather than routine audit) billing issues under the Contract and thereby voided the $3.5 million refund set forth in Task Order 75. As the RTC wants to raise billing issues, including the issues that you have raised in your August 20 letter, it may certainly do so, but doing so causes the RTC to forfeit the voluntary refund that PW previously made. If the RTC wishes to retain its earlier refund, then it must remember that that voluntary refund subsumed any other audit issues that the RTC later identified, including those identified in your August 20 letter, which had less than a $3.5 million impact.

In other respects, PW appreciates your clarifying for us at the September 9 meeting the basis upon which you have conducted your audit and made the comments in your August 20, 1993 letter. We understand that the purpose of your office's review of PW's invoices has been to

determine whether the time expended and billed by PW was, in the judgment of your office, "reasonable."

As you acknowledged to our counsel, the RTC Office of Contracts is not obliged to concur with your office's views on these issues. Realistically, however, the RTC Office of Contracts seems unlikely to ignore or disregard the issues you raised, considering the emotionally charged atmosphere that surrounds this engagement. Consequently, PW believes that it is even more important than usual that the IG act responsibly in analyzing this matter, and in articulating the exact nature, scope and legal support for each of its recommendations.

For this reason, PW is troubled by your office's attempt to analyze PW's time-and-materials Contract at HomeFed by reference to audit principles that apply to cost-reimbursement contracts. "Cost reasonableness" is a concept that properly applies to cost-reimbursement contracting. For a government contractor's costs to be reimbursed under that contract type, its costs must be "reasonable," "allowable" and "allocable" to the contract.[1] This conceptual framework allows auditors to question costs, even though they are otherwise allowable and allocable to the contract, if the auditors believe that the costs may be "unreasonable."[2]

As our counsel pointed out at the September 9 meeting, the HomeFed Contract is not a cost-reimbursement

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[1] Compare FAR 31.204.

[2] Even when the government alleges that a contractor's incurrence of a cost was unreasonable, the courts and boards of contract appeals seldom uphold the government's disallowance. The law gives contractors broad discretion within which to exercise sound business judgment in incurring costs to accomplish a particular governmental objective -- something the government presumably desires by hiring an outside contractor in the first place. See J. CIBINIC & R. NASH, COST REIMBURSEMENT CONTRACTING 456-59 (George Washington University 1981).

contract.[3] It is a time-and-materials contract, where the RTC's payment obligation is computed by multiplying the "direct labor hours" by "specified, fixed hourly rates" prescribed in the contract.[4] Auditing invoices under a time-and-materials contract by reference to subjective notions of "cost reasonableness" is not appropriate in the circumstances.

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[3] Indeed, cost-reimbursement contracts are not even recognized by the RTC's CONTRACT POLICIES AND PROCEDURES MANUAL, ch. 3, § I.

[4] RTC CONTRACT POLICIES AND PROCEDURES MANUAL, ch. 3, § I.d.(2)(a); compare FAR 52.232-7. The government may not substitute its post hoc judgment of what a time-and-materials contractor should have been paid for what the contract requires the contractor to be paid. For example, in Rocky Mountain Machinery Co., ASBCA No. 3719, 56-2 BCA ¶ 1138, the government sought to avoid paying a time-and-materials contractor for the actual hours it worked because the contracting officer thought that those hours were excessive. The contracting officer argued that the contractor's "shop force was not being properly supervised and . . . maximum efficiency was not being obtained due to men being placed on the Government work for too short periods of time, thus resulting in less productive working time when it is considered that there is usually a certain amount of time spent in getting the necessary tools and 'making ready' to perform." Id. at 3003. The board of contract appeals refused to allow the contracting officer to substitute his opinion of how many hours the contractor's employees should have worked for the number of hours they actually worked in performing the contract: "The language of the two-party basic contract provides without reservation that the contractor will be paid [a stated hourly rate] for each regular hour of labor performed by certain types of employees, and the hours of labor here claimed for were actually performed. There is no dispute as to the actual hours of work performed." Id. at 3006. Consequently, the contractor was entitled to recover at the contract rates "for labor actually expended in the performance of its contractual obligations." Id.

For all of these reasons, we believe that it is important that the IG's final report distinguish between its policy recommendations and its legal conclusions, if any. Your office's views about the "reasonableness" of the HomeFed project may well have considerable policy implications for RTC management. However, those policy views do not -- and should not be understood by the RTC's Office of Contracts to -- address the legal issue of whether PW is entitled to have its outstanding bills paid at the "agreed-upon hourly rates"[5] of the Contract as it was written.

Whether PW is entitled to payment of its invoices is a function of the statutory, regulatory and contractual principles that apply to the Contract. If PW's actions in charging and invoicing time violated those rules, then the IG certainly should recommend that the RTC question any noncomforming charges. However, since PW's actions in charging and billing time did not violate any of these objective legal rules -- and since the IG has not alleged any such violation -- then the IG has no principled basis upon which to suggest that the RTC Office of Contracts should decline to pay PW's bills.

It is one thing for the IG to evaluate whether, in hindsight, the RTC should have written the Contract differently than it did, or to recommend whether, in the future, the RTC should place certain administrative limits on time-and-materials contracts. It is quite another for the IG to try to intimate that PW should not be paid under the terms of its Contract with the RTC, as that Contract was written.

Rules of contract entitlement -- what performance a contractor owes the government, and what payment the government owes the contractor -- are objective rules. They are not subject to after-the-fact modification in light of the subjective preferences of anyone else, whether that be internal auditors or inspectors general.

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[5] WRITTEN STATEMENT OF JOHN J. ADAIR, INSPECTOR GENERAL OF THE RESOLUTION TRUST CORPORATION BEFORE THE SUBCOMMITTEE ON REGULATION AND GOVERNMENT INFORMATION OF THE SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS (Feb. 19, 1993)(hereinafter, "ADAIR SENATE STATEMENT") at 14.

No contracting party has the right to withhold performance without a sound legal justification for doing so. Agencies of the federal government have the further responsibility not to treat their contractors "arbitrarily and capriciously." That is the essence of federal administrative law. For a government agency to try to change the ground rules for paying a contractor, after the contract has been negotiated, executed and performed, clearly would be arbitrary and capricious.

PW believes that the concerns you expressed in your August 20 letter and the September 9 exit conference fall almost entirely in the category of management and policy concerns, not questions as to legal entitlement. If the IG wants to criticize the RTC for its past contracting practices or wants to recommend that the RTC do something different in the future, that is a legitimate function of the IG. However, if the IG wants to suggest that the RTC should not pay PW's outstanding bills under the Contract, without citing any specific law, regulation or contract clause which supports that position, that is not a legitimate function of the IG.[6]

With the four exceptions noted in Specific Comments 7-10 below, PW believes that any refusal by the RTC to pay PW's outstanding invoices will constitute a breach of the Contract, and one with which the IG should not be associated.[7]

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[6] In its previous statements to the Congress, the IG seems to have admitted, however grudingly, that PW is entitled to be paid for the hours it worked under what the IG recognizes was a time-and-materials contract. See ADAIR SENATE STATEMENT at 3 ("From a legal standpoint, it would appear that RTC has little contractual recourse. . . . [The Contract] gave the contractor carte blanche. . . . RTC allowed the firm to, in effect, charge these amounts and perform these services"); id. at 14 (this "time-and-materials contract" was, in the words of an RTC attorney, "a contractor's dream"); RESOLUTION TRUST CORPORATION, OFFICE OF INSPECTOR GENERAL, SEMIANNUAL REPORT TO THE CONGRESS at 10-12 (under the heading, "A Contractor's Dream").

[7] We trust that the IG would not, as a matter or responsible government action, induce the RTC to breach the Contract without articulating a solid legal

[Footnote continued on next page]

As our counsel advised you on September 9, PW believes that most of the comments in your August 20 letter are invalid as a matter of law. Nonetheless, in this letter and its attachments, we have endeavored to provide you with as much data and factual explanation as we can reasonably assemble, given the after-the-fact nature of your questions.[8] In this way we hope to eliminate, or at least narrow, any differences between PW and your office.

SPECIFIC COMMENTS

1. Comments on Alleged "Billings for Subcontractors." Your August 20 letter questions $318,399 of alleged "subcontractor billings." Your letter asserts that PW's employment arrangements with the eight consultants identified on Enclosure I to your letter constituted "subcontracts." Based upon that premise, your letter then concludes that the Contract obliged PW to obtain the RTC's approval for these "subcontractors" and to submit to the RTC "statements of work" and fitness and integrity certificates for each of them. By questioning the "costs" billed to the RTC for these eight individuals, your letter implictly suggests that the RTC should refuse to pay PW for these individuals' services, apparently as a remedy for the paperwork failures your letter alleges.

[Footnote continued from previous page]

basis for the RTC's doing so. In the private sector, such conduct would constitute tortious interference with a contractual relationship.

[8] No statute, regulation or contract clause required PW to keep time records sufficient to respond to the kinds of issues your office is now raising. PW believes that it is fundamentally unfair for the IG to ask questions of PW, at a level of record-keeping detail that it knows the RTC did not even ask PW to maintain, under threat of the IG's recommendation that PW's bills should not be paid.

PW does not agree that the eight consultants were "subcontractors." Even if they were, and even if PW's failure to follow appropriate Contract procedures constituted a technical breach of the Contract, the RTC's wholesale refusal to pay for the services rendered by these individuals is not legally appropriate.

a. **The eight consultants are not "subcontractors."**

i. **Temporary Labor Arrangements Are Not Government "Subcontracts."** A prime contractor's arrangements to purchase labor -- whether from permanent employees or from temporary workers -- in order to perform its government contracts do not constitute government "subcontracts." If they did, then every individual employment arrangement and every collective bargaining agreement with a labor union would be a government "subcontract." That is not the law, and that has never been the law.

The principal characteristic of a government "subcontract" is that the prime contractor delegates or transfers to the subcontractor some part of the performance obligations that it owes to the government. The prime contractor, of course, retains ultimate responsibility to the government for contract performance. Nonetheless, as between the prime contractor and the subcontractor, the subcontractor has agreed to assume performance of a defined subset of the prime contractor's obligations to the government agency.

That is not the case with temporary employees or consultants. Such labor arrangements provide temporary labor to the contractor for its use on a project, but the contractor does not delegate to those individuals, nor do the individuals agree to perform, particular line items or sub-tasks of the contractor's obligations to the government. The individuals' duty is to work for the contractor, side-by-side with the contractor's permanent employees -- not to perform services in place of the contractor. Thus, it is no wonder that PW did not have "statements of work" for the eight consultants, any more than it had "statements of work" for its own employees. The absence of statements of work confirms that these individuals were not in any sense "subcontractors."

For these reasons, one cannot legitimately contend that a temporary employee or consultant is a "subcontractor"

to an RTC contractor. Such an individual is not, in the words of the RTC's own regulations, an entity with which a contractor "has entered . . . into a contract to perform services . . . in order to fulfill the contractor's obligations under its contract with the RTC." 12 C.F.R. § 1606.2(s).

ii. **The RTC Has Officially Recognized That PW Is Entitled To Charge The Labor Category Rates In This Contract For All Purchased Labor, Whether Temporary Or Permanent.** The RTC has, at the senior-most levels of the agency, officially concurred with PW's position on this issue. In the February 17, 1993 Amendment to Task Order 75, the Director of the RTC's Office of Contracts, John Tierney, and the Vice President of the RTC for Administration, Dennis F. Gear -- after consultation with the RTC's lawyers, including Acting Senior Vice President and General Counsel Richard T. Aboussie -- unequivocally stated as follows:

> PW does not have any legal obligation to reduce its hourly rates retrospectively for services rendered pursuant to contractually agreed-upon rates. In particular, the RTC does not question PW's legal entitlement to the fees invoiced for clerical and paraprofessional services, nor as a matter of contract policy does RTC question PW's legal entitlement to charge contractual category rates for
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> purchased labor, whether temporary or permanent.

Amendment to Task Order 75, ¶ 3.f. (emphasis added). This same position was stated by RTC President and Chief Executive Officer Albert V. Casey in his February 19, 1993 appearance before the Senate Governmental Affairs Committee and his February 23, 1993 appearance before the House Banking Committee.[9]

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[9] See WRITTEN STATEMENT OF ALBERT V. CASEY, PRESIDENT AND CHIEF EXECUTIVE OFFICER OF THE RESOLUTION TRUST CORPORATION BEFORE THE

[Footnote continued on next page]

Consequently, whatever views may have been (or may still be) held by the IG, the RTC has taken the official, institutional position that PW is entitled to charge contractual category rates for purchased labor, whether that labor is permanent or temporary. That should be the end of the issue.[10]

b. **Even if the eight consultants were "subcontractors," the RTC's complete refusal to pay for their work would be unlawful.** Even if your letter were correct in suggesting that the eight consultants were "subcontractors," that would not entitle the RTC to withhold payment for their time from PW. Assuming arguendo that PW's failure to obtain the RTC's permission for the "subcontracts" and its failure to submit statements of work and fitness and integrity certifications for the "subcontractors" were breaches of the Contract, that does not mean that a total disallowance is appropriate because there is no evidence that the RTC was damaged in the amount of the total charges for the "subcontractors."

Government agencies' attempts to avoid paying its bills on account of technical paperwork violations are not successful. For example, in Tom Cleveland Associates, DCAB No. OMBE-10-76, 78-2 BCA ¶ 13,388 (1977), the Small Business Administration ("SBA") attempted to disallow all of the contractor's invoices because he did not

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SUBCOMMITTEE ON REGULATION AND GOVERNMENT INFORMATION OF THE SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS at 6 (Feb. 19, 1993); HEARING ON STATUS REPORT OF THE RESOLUTION TRUST CORPORATION BEFORE THE SUBCOMMITTEE ON GENERAL OVERSIGHT, INVESTIGATIONS, AND THE RESOLUTION OF FAILED FINANCIAL INSTITUTIONS OF THE HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS at 8 (oral testimony) & 61 (written statement).

[10]We acknowledge that the RTC has prospectively modified its contracting policies to require that temporary labor must now be billed to the RTC at cost, rather than at the contractor's labor category rates. While we do not question the RTC's right to modify its contract terms prospectively, those changes can have no retroactive effect upon existing contracts.

obtain the contracting officer's prior written consent before he hired outside consultants for the project. Even before the appeal reached the Board of Contract Appeals, the SBA abandoned its disallowance of subcontractor costs. Id. at 65,435. The SBA continued to argue that the rest of the contractor's bills should be disallowed because he had not kept the detailed cost records that the contract required him to keep.

The Board of Contract Appeals flatly rejected that hypertechnical argument because such a disallowance "constitutes the imposition of a penalty, is totally unwarranted and would establish an undesirable precedent which should be avoided in the future." Id. at 65,436. The Board ordered the SBA to pay the contractor for the services that he had rendered, and which the SBA had accepted, in accordance with the man-day rate set forth in his contract.

Those same principles apply here. Even if the RTC were entitled to damages for PW's alleged "breach" of the subcontractor permission rules of the Contract, those damages would be limited to nominal damages under general principles of contracts law.[11]

c. **PW's bills for these eight consultants are legitimate and should be paid.** Five of the eight consultants (Jeff Payman, John Guterman, Nicholas Lozano, Kay Murphy and Deborah Phiefer) were Paradox/MIS professionals. Systems for asset tracking, asset pool reconciliation, due diligence issue tracking and resolution, war room operation and administration, and microfilm database retrieval were built using a 4GL version of Paradox. After PW exhausted its own Paradox resources, more staff was needed to develop systems for the HomeFed project in a timely manner. PW sought out individuals -- not companies or subcontractors -- from all known local sources, including word of mouth. These five MIS professionals worked side-by-side with PW staff, under the direction of PW management. All five executed contemporaneous RTC Fitness and Integrity Certifications for PW. (Ms. Murphy was a PW employee at

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[11] See RESTATEMENT (SECOND) OF CONTRACTS § 346(2) ("If the breach caused no loss . . . a small sum fixed without regard to the amount of loss will be awarded as nominal damages").

the beginning of the HomeFed engagement. After she started on the project, she left the direct employ of PW but PW asked her to stay on as a consultant for purposes of continuity, as well as the high quality of her work.)

Hugh Cooper and Richard Fox were specially-skilled staff with prior experience specifically relevant to the HomeFed project. Mr. Cooper had started up the HomeFed copy center operation for Grant Thornton and the RTC prior to PW's engagement. His experience with the operation, along with his extensive S&L background, greatly facilitated the RTC-mandated transition from Grant Thornton to PW. Mr. Fox, a former PW audit manager, had performed due diligence work prior to the HomeFed engagement. This made him particularly well qualified to work on the due diligence quality control function that PW performed at HomeFed. RTC managers specifically approved PW's inclusion of Mr. Fox on PW's quality control team. Scott Pearlman was, just prior to his deployment to the HomeFed project, a PW employee. PW kept him on the project as a consultant for several weeks to get the quality assurance operation up and running. Messrs. Cooper, Fox and Pearlman likewise executed contemporaneous RTC Fitness and Integrity Certifications for PW.

PW trusts that this additional information will satisfy any concerns you might have about PW's reasons for hiring these eight consultants, all of whom it integrated into its own workforce, and what services these individuals rendered on the project.

2. **Comments on Alleged "Excessive Overtime for Subcontracted Clerical Labor."** Your August 20 letter questions $202,419 of alleged "excessive overtime" by clerical labor on the HomeFed project. Your letter assumes that clerical personnel worked "8-hour shifts." Based upon that premise, you conclude that any clerical time worked in excess of eight-hour days must have been "excessive" and should be disallowed.

a. **The RTC has no legal basis for its position.** As you acknowledged at our September 9 meeting, there is no statutory, regulatory or RTC contractual principle that limits an RTC contractor's clerical workers to eight-hour days, or that allows the RTC to stop paying a time-and-materials contractor at the end of an eight-hour day. In a time-and-materials contract, the issue is the actual number of hours the contractor worked, not how many hours the government, in retrospect, believes

the contractor should have worked. See note 4 supra and accompanying text. There is absolutely no basis upon which the RTC could lawfully decline to pay PW for clerical "overtime."

Indeed, under a time-and-materials contract, there is no such thing as "overtime," unless the government has agreed to pay the contractor a premium rate for such time.[12] In the absence of such an agreement, the government is only obliged to pay the contractor the agreed-upon category rates set forth in the contract for all hours worked. The contractor, not the government, is liable to employees for any applicable overtime pay or shift differential.

Because the Contract placed the marginal financial risk of overtime on PW, not the RTC, it is not surprising that the Contract did not contain any limit on "overtime," any requirement that PW obtain the RTC's permission before having its clerical staff work "overtime,"[13] or any obligation to keep more detailed records of work performed on "overtime" than work performed on regular shifts. Any attempt by the IG to penalize PW, after-the-fact, for failing to keep records that were neither contractually required nor reasonably

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[12] Compare FAR 52.232-7(a)(3) ("Unless the Schedule prescribes otherwise, the hourly rates in the Schedule shall not be varied by virtue of the Contractor having performed work on an overtime basis. . . . If the Schedule provides rates for overtime, the premium portion of those rates will be reimbursable only to the extent the overtime is approved by the Contracting Officer").

[13] In cost-reimbursement contracting, it is common for the contract to require the contractor to obtain the government's permission before asking its employees to work overtime. That is because the government, not the contractor, must pay any overtime premium that is paid to the employee. The same principle applies to the overtime premium portion of time-and-materials contracts if the contract provides for overtime rates different than standard rates. Such is not the case under a time-and-materials contract, such as the HomeFed contract, which sets forth category labor rates that do not vary in overtime situations.

necessary for Contract performance would be arbitrary and capricious. For all of these reasons, the "clerical overtime" issue is not a legitimate audit issue.

b. **The clerical "overtime" is justifiable.** The total billings for clerical temporary services through September 30, 1992 were in excess of $4 million, of which approximately $200,000 was for services rendered in excess of eight hours per day. By simple calculation, it is clear that the so-called "overtime" component amounted to only five percent of the clerical services.[14] This insignificant amount of "overtime" in the context of the engagement as a whole was entirely reasonable under the circumstances, particularly where (as we demonstrate below) many clerical staff had responsibilities that required them to work more than eight hours per day.

Further, as our counsel advised you at the September 9 meeting, virtually all of the clerical "overtime" falls into one of two perfectly reasonable categories:

i. The work of **supervisory clerical employees** was not limited to eight-hour shifts, as your letter assumes. Area supervisors generally worked shifts of approximately 12 hours per day (sometimes more, sometimes less) to ensure continuity and quality control. Although shift and crew supervisors did not have to work 12 hours per day, they usually did have to work longer than eight hours per day to fulfill their responsibilities; occasionally this required more than 12-hour days to get the job done. By way of example, RemedyTemp has identified Jose Acosta, Margarita Barrera, Robert Butte, Cheryl Cray and Sharon Davis as area supervisors, and David Dextradeur, Anthony Dision, Jerome Green, George Guerra and Cleve Horne as shift and crew supervisors. The area supervisors' time generally approximates 12 hours per day, and the crea and shift

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[14] Even assuming that the balance of the $4 million of clerical services was based on full eight-hour days, the so-called "excess overtime" would raise the average workday to only 8.4 hours. In fact, since the balance of $4 million in services must have included workdays that averaged somewhat less than eight hours per day, the aggregate is likely to be significantly less than an average of 8.4 hours per day.

supervisors' time generally exceeds eight hours per day. We believe that this supervisory clerical "overtime" is perfectly reasonable in light of the functions that these persons performed. We do not believe that there is any basis for the IG to question the legitimacy of the longer-than-usual workdays that PW expected of these supervisory clerical employees.

ii. The work of **non-supervisory clerical employees** sometimes required them to work more than eight hours per day. At times, the volume of the work simply required non-supervisory clerical "overtime" to accomplish everything that had to be done. In light of the time demands of the job and the irregular flow of work to PW, which PW could not control, it is not surprising that "overtime" was sometimes required. Even on days when the workflow was more regular, non-supervisory clerical employees would have acted irresponsibly if they had simply left their work stations when the clock struck "eight." PW expected such clerical workers either to finish copying the files they had started before their shift ended, or to spend enough transitional time with their successors to guard against errors that might otherwise be caused by the shift change. Thus, it is not surprising that clerical employees often had to work fractional hours of "overtime." Such time was logged in a responsible effort to ensure high-quality work. We believe that this non-supervisory clerical "overtime" is perfectly reasonable in light of the uneven workflow on the HomeFed project and RTC's quality expectations for this job. We do not believe that there is any basis for the IG to question the legitimacy of this "overtime" by non-supervisory clerical employees.

3. **Comments on Alleged "Excessive Overtime for Price Waterhouse Employees and Subcontracted Professional Personnel."** Your August 20 letter questions $177,339 of alleged "excessive overtime" by PW and temporary (not "subcontracted") professional staff on the HomeFed project. Your letter assumes that professional employees cannot maintain "a sufficiently high level of concentration" after 12 hours of work to be worthy of their respective billing rates. Based upon that premise, you conclude that any professional time worked in excess of 12-hour days must have been "excessive" and should be disallowed.

a. **The RTC has no legal basis for its position.** As you acknowledged at your September 9 meeting with our

counsel, there is no statutory, regulatory or RTC contractual principle that limits an RTC contractor's professional employees to 12-hour days, or that allows the RTC to stop paying a time-and-materials contractor at the end of a 12-hour day. Nor did the Contract contain any requirement that PW obtain the RTC's permission before having its professional staff work "overtime." In a time-and-materials contract, the issue is how many hours the contractor spent in performance, not how many hours the government later asserts it should have spent. See note 4 supra and accompanying text. Thus, there is absolutely no basis upon which the RTC could lawfully decline to pay PW for professional "overtime."

For the same reasons set forth in 2.a. above, there is no such thing as professional "overtime" in the HomeFed Contract. Moreover, any attempt to penalize PW for not having detailed records of exactly what work a professional employee was doing betwen hours 14 and 16 on a particularly heavy day, for example, would be arbitrary and capricious because there was no contractual or other legal requirement to keep such records in the first place. For all of these reasons, the "professional overtime" issue is not a legitimate audit issue.

b. **The IG's position in this case is blatantly inconsistent with the position it has taken in another professional services case.** The IG's position in this case is shockingly different from the position it took in connection with the audit of a time-and-materials contract with the law firm of Cravath, Swaine & Moore, which the RTC hired to render legal services to the RTC. In Audit Report A92-034 dated September 28, 1992, your office commented as follows:

> In reviewing Cravath's bills for professional fees, we noted that an associate attorney had charged FDIC/RTC for a 26-hour day. We therefore question the $360 overcharge (two hours at $180, the hourly rate for associate attorneys). We found several other instances where Cravath attorneys claimed between 20 and 24-hour days and although we have serious reservations about the effectiveness

> of individuals working these types of hours, we did not question any of the charges.

Resolution Trust Corporation, Office of the Inspector General, "Legal Fees Paid to Cravath, Swaine & Moore," Audit Report A92-034 (Sept. 28, 1992) at 14 (emphasis added).

There is absolutely no principled basis upon which your office can conclude that lawyers can charge 20-24 hours per day before they are unworthy of their hourly rates, while accountants and other professionals are presumed to loose their value as the providers of high-quality sevices at the 12-hour point. Such a lack of even-handed treatment among professions is a paradigm example of the arbitrary and capricious standards employed in the IG's August 20 letter.

Just as important, the IG's treatment of this subject is thoroughly offensive to the men and women of PW who worked on the HomeFed engagement. This project was staffed by hundreds of PW employees whose attitude embodies the very essence of professionalism: they do what is required of them, regardless of the hours they must work and the sacrifices they must make to their personal lives, to meet the needs and time deadlines of their clients.

The IG can't have it both ways. If PW's work had to be conducted in the "deadline driven atmosphere" about which the IG has complained so much to the Congress,[15] then the RTC cannot in fairness fault PW for the heroic efforts of its professionals who tried -- and succeeded -- in meeting the RTC's demands, whatever the IG may retrospectively think of the wisdom of those demands. For this kind of professional effort, the IG owes PW its compliments, not its criticism.

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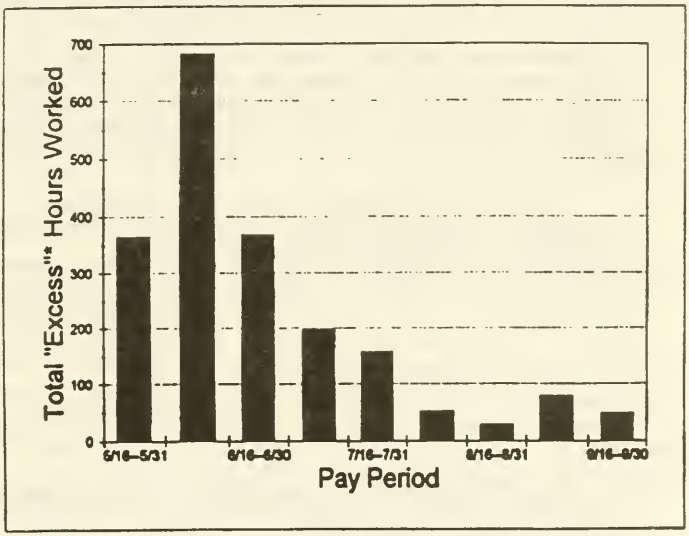
[15] ADAIR SENATE STATEMENT at 9 ("The deadline became RTC's goal"); id. at 16 ("A deadline was set, and to meet this deadline," good contracting practices were not followed); id. at 18 (HomeFed was "a case study of a deadline driven organization" operating in a "deadline driven atmosphere").

c. **The professional "overtime" is justifiable.** In an effort to address this issue pragmatically, PW has attempted to correlate the professional "overtime" in excess of 12-hour days which the IG has questioned to the bi-weekly time periods for this engagement. As you can see from the chart below, most of this professional "overtime" corresponds to time periods during the first few months of the job, when the RTC's demands on PW were extraordinary.[16] As the RTC's original September 30 deadline for the sale of HomeFed was abandoned and the intensity of the engagement was reduced, the need for professional "overtime" was likewise reduced.



* "Excess" Means Hours Worked Over 12 Hours

[16] See also the bi-weekly reports that PW prepared at the request of the RTC's senior management in Washington, D.C., detailing exactly what services were rendered during each billing period.

The extra time devoted by PW's professional employees demonstrates not that they had nothing better to do, but that they rose to the occasion of the RTC's needs. As the RTC's own employees who worked more than 12-hour days should be able to tell you,[17] the professionals assigned to this project did not work in "shifts." The persons who were responsible for meeting the RTC's requirements met them, no matter how long they had to work and how much of their personal lives they had to sacrifice to do it.

As our counsel told you in the September 9 meeting, we cannot tell you exactly what each professional was doing during each hour of each day -- that was not the way PW kept its time records or the way the RTC asked PW to keep them. Nonetheless, we believe that there is a sufficient and obvious correlation between the questioned "overtime" hours and objectively verifiable project workload/deadlines to demonstrate that our professional employees were not simply "logging time," as you phrased it during your September 9 meeting with our counsel.

4. Comments on "Billings for Price Waterhouse Employees and Subcontracted Professional Personnel Who Had Minimal Involvement With the Project." Your August 20 letter questions $79,083 in fee and expense billings for professional staff members "who either charged minimal hours per pay period to the project or were assigned to the project for only a short period of time." Your letter assumes that the individuals and hours listed on your Enclosure IV reflect staff turnover and inefficiency which should not be charged to the RTC because it is questionable "whether an individual brought on site for a short time could produce tangible results."

a. The RTC has no legal basis for its position. As you acknowledged at your September 9 meeting with our counsel, there is no statutory, regulatory or RTC contractual principle that requires the employees of RTC contractors to bill a minimum number of hours to an engagement in order to bill any time to it. Indeed, the

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[17] As you admitted during our September 9 meeting, the RTC's own on-site employees who supervised PW's work sometimes logged more than 12-hour days.

Board of Contract Appeals has rejected similar "productivity" arguments in the context of a time-and-materials contract. See note 4 supra. Thus, there is absolutely no basis upon which the RTC could lawfully decline to pay PW for this time.

b. **The IG's audit position is inconsistent with its previous public statements and Congressional testimony.** In a previous audit report and its three appearances before Congressional hearings this year, the IG -- in sharp contrast to the RTC officials who were responsible for this project -- has characterized PW's work at HomeFed as mere "photocopying tasks" for which "the services of an international accounting firm were not needed."[18] It is not apparent what principled basis the IG has, in the current context of this audit, to contend that PW's services at HomeFed were so complicated that professional employees had to spend at least several days of "get[ting] up to speed" before they could be of sufficient value to the project to justify their rates. The IG cannot have it both ways. Either this issue is not a legitimate audit issue, or the IG needs to retract a number of previous inflammatory public and Congressional statements.

c. **The identified time charges are justifiable.** As we advised you at our September 9 meeting, virtually all of the questioned time falls into one of the following categories:

i. **Senior management time** -- The services that these individuals rendered to the RTC on the HomeFed engagement do not fit the stereotype that you had in mind when you wrote your August 20 letter -- professional employees who were relocated to San Diego for full-time assignment to the project, whom you posit had to take several days to "get up to speed" before they could make a real contribution to the project.

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[18] RESOLUTION TRUST CORPORATION, OFFICE OF THE INSPECTOR GENERAL, "RTC's MANAGEMENT AND CONTINUITY CONTRACTOR CONTRACT WITH PRICE WATERHOUSE," Audit Report A93-045 (June 25, 1993), at 27. See also ADAIR SENATE STATEMENT at 2 ("RTC has paid . . . for an accounting firm to perform what are essentially photocopying services"); id. at 16 ("the services of approximately 700 members of an accounting firm were not necessary for photocopy services").

Putting aside the inaccuracy of that assumption, the time devoted by the PW partners, principals and senior managers does not fit that stereotype, and it never did.

When a client engages PW, it expects that it is also purchasing quality control and strategic guidance for the project from senior professionals. It also expects a firm such as PW to make available specialized consulting skills for a project, but only to the extent required. The fact that a number of PW professionals, most of them fairly senior, devoted the hours for which they were needed -- but no more -- to the HomeFed project should be complimented, not questioned, by the IG.

ii. Occasional work performed by local staff members. On a number of occasions, PW requested local staff members who were not assigned to the project full-time to help with tasks on which several days time were not required to "get up to speed." PW believed that this was the responsible way to manage the job, rather than leave a task unperformed or incur significant travel expenses of bringing in a staff member from outside the locality to do the work. PW trusts that the IG is not now suggesting otherwise. A number of San Diego and other California-based PW staff were detailed to San Diego for short periods of time for this purpose.[19] In addition several staff members in the Detroit area[20] and the Orlando area[21] were also requested to help in those localities, where some of the job was performed.

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[19]Justin Bert, Curtis Boyle, Russ Clark, Annette Del Rosario, Michael Eggleton, Fred Flax, Diana Grubbs, Lee Ann Hankard, Douglas Hendrix, Tanya Henry, Louis Hernandez, Vanessa Jackson, Anna Liau, Terri Litzkow, Ron McClure, Glenn Murdock, Leon Pawinski, Kethleen Petsche, Frederick Pierce, Anthony Ranos, Ian Sandland, Patricia Schaeffer, J.A. Scherbuy, Keri Sorce, Roxanne Wittwer, Angela Milner and Kristin SanMartin

[20]Wilton Holm and Joseph Meisner.

[21]Karen Gergick, Carlene Harris, James Hasler, Kathleen Helms and Christine Toutikian.

iii. **Staff members whose short tenure on the project was attributable to the RTC.** On several occasions, PW had to "send home" staff members whom it brought to San Diego to work on the project full-time, only to have the RTC change its instructions to PW, delete a task or otherwise render the staff member's full-time help unnecessary. PW trusts that the IG is not now saying that these situations were somehow PW's "fault," or that PW should bear financial responsibility for those starts and stops to the engagement. Those staff members include: Daniel Autry, Sean Anglim and Lisa Duran.

iv. **Other short-term staffing situations.** In a few cases, other reasons explain why a PW staff member was only assigned to the project for a short period of time. One PW staff member (Douglas Troy) had to be sent home due to a medical emergency. One PW staff member, Dave D. Jones, a LAN technical specialist helped install the RIBS LAN in the San Diego office; his help was only needed for a few hours. In other instances, the demands of the job were so great that PW assigned staff to the project, even when they could not make a long commitment to the project.[22] Whatever *de minimis* impact these situations had on the overall cost of this engagement to the RTC must merely be accepted as normal for a massive time-and-materials contract.

5. **Comments on "Changes in Billing Rates."** Your August 20 letter questions $75,933 of PW billings for staff members who were billed at more than one billing rate during the course of the engagement. As our counsel advised you at the September 9 meeting, these billings fall into one of two categories:

a. **PW Promotions.** In mid-April of each year, promotions within PW are announced, effective July 1, the beginning of PW's fiscal year. Those promotions included: K. Cody Hayasse, John M. Kuttler and Mark Lewis. In our revised billings to the RTC for the HomeFed project, we reflected those promotions in accordance with the strict category billings we utilized in the revised billings. Your letter criticizes that

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[22] These individuals include Keith Crowe, Kristen Randolph, Robert Franzetta, Edward Crotty, Thomas Baker and Stephanie Runkle.

practice by embracing a "functional" interpretation of the Contract's hourly rate structure:

> In our opinion, any change in billing rate must be justified by an appropriate change in the staff person's responsibilities at HomeFed, such as supervising more employees and performing tasks that require increased knowledge and skill levels. An internal promotion is not sufficient reason for increasing the employee's billing rate to RTC. [emphasis added]

That is exactly how PW originally billed the HomeFed job -- functionally. After consultation with the contracting officer,[23] PW decided to revise its billings strictly in accordance with the contractual rates assigned to PW's internal staff classifications.

If functional billing is the institutional preference of the RTC after all, the RTC will have to expect PW to reinstate hundreds of thousands of dollars of its fees, which had previously been removed from the bills on the assumption that the RTC wanted it that way. If strict category billing is what the RTC wants, that is what the revised bills reflect. But the IG must embrace one Contract interpretation or the other; the IG cannot have it both ways.

b. **PW Staff Billed Lower Than Their Appropriate Category Rate.** The IG has correctly noted that some PW staff members were billed at more than one rate, but the IG is wrong in assuming that the lower rate was "correct" and the higher rate was "incorrect." In fact,

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[23] RTC contracting officer David McDermott advised PW that, in the absence of RTC case-by-case approval, either before-the-fact or after-the-fact, he would expect a contractor to bill the RTC in accordance with strict internal labor categories.

the higher rates were the correct rates.[24] During some point on the job, PW "functionally" billed the RTC for these staff at lower-than-category rates. When PW revised all billings to strict category rates on April 30, 1993, PW made the client-relations judgment not to increase the billing rates for these individuals retroactively, even thought that is what a strict category billing approach would require. If the RTC would prefer accounting purity over pricing pragmatism, the RTC will owe PW $15,369 more than the revised invoices through September 30, 1992 reflect.

6. Comments on "Work Performed Off-Site." Your August 20 letter questions $41,916 of fees for services rendered "off site" by PW managers and senior management. Your letter assumes that physical proximity to the job site was necessary for these admittedly senior professionals to render the services they did. Based upon that assumption, you "question whether the work performed off-site tangibly benefited RTC."

a. The RTC has no legal basis for its position. As you acknowledged at your September 9 meeting with our counsel, there is no statutory, regulatory or RTC contractual principle that requires professional service contractors to render their services at a particular physical location. If the nature of the work can reasonably be performed elsewhere, there is absolutely no basis upon which the RTC could lawfully decline to pay PW for these hours of work.

b. The identified time charges are justifiable. At our September 9 meeting, you narrowed the scope of your questions to nine identified instances. Those nine instances are explained as follows:

- Marc Noe developed work-flow diagrams for programs and systems while in Virginia. His did not need to be in San Diego to do that work (he did some MIS work on-site), and his

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[24] The staff members and their correct rates are: Baron Black/$79; Linda Fulton/$79; Christy Reinhold/$134; Chris Sansom/$79; Kirk Crawford/$160; Kristin Kirwan/$59; Angela Milner/$39; Page Todson/$79; Frederick Pierce/$160; Steven Scott/$79; and Roxanne Wittwer/$160.

ability to do it elsewhere saved the RTC travel costs. [6/15/92 bill]

- Mark O'Donnell was a member of the due diligence quality control team. He developed RTC-required reports in New York. He did not need to be in San Diego to do that work, and his ability to do it elsewhere saved the RTC travel costs. [9/30/92 bill]

- Mary Ann Power, a member of the senior management team who spent 71 hours on-site in the two-week period ended June 15, 1992, was able to devote 10 hours of consulting time to the project while she was off-site. During the two-week period ended June 30, 1992, she spent 26 hours on-site, and she was able to devote 10 hours of consulting time to the project while she was off-site. Her off-site time included consultations on setting up the microfilming operation, determining requirements, designing operations, developing specifications for equipment, processing, quality control and staffing. She did not need to be in San Diego to do that consulting work, and her ability to do it elsewhere saved the RTC travel costs. [6/15/92 and 6/30/92 bills]

- Jim Rabenhorst is a partner in the firm's Bethesda, Maryland office who acted as the review partner for the HomeFed engagement. He had been involved in PW's May 1992 proposal to assume responsibility of the project from Grant Thornton. Consequently, he was familiar with the project from its very inception. Mr. Rabenhorst's job was to provide senior management advice and counsel to the engagement team, along the lines discussed in comment 4.c.i. above, intentionally from the perspective of someone who was not part of the day-to-day management of the project. This "review partner" technique is part of PW's normal quality control procedures for its major engagements. So long as PW's review partner makes occasional visits to the project site, he or she can perform that function and be available to advise on-site management without being at the job site all the time. Mr. Rabenhorst's availability by telephone,

electronic communications and express mail, in a variety of locations throughout the United States, saved the RTC travel costs. [5/31/92, 6/15/92 and 7/31/92 bills]

- Deborah Rogers was a member of the senior management team and was the partner in charge of the due diligence quality control task. Her function, reviewing procedures and staffing and communicating with the on-site manager did not require full-time presence in San Diego. Her ability to do this work elsewhere saved the RTC travel costs. [9/30/92 bill]

- Linda Seitz was a member of the senior management team and was the manager of the due diligence quality control task. Her work included preparing reports to the RTC concerning PW's findings. That work did not have to be performed in San Diego. Her ability to do that work elsewhere saved the RTC travel costs. [9/30/92 bill]

7. **Comments on "Subcontracted Clerical Labor Billed Twice."** PW concurs with your office's conclusion that $15,555 was inadvertently billed twice for certain clerical labor, although PW does not concur with your characterization of this labor as "subcontracted."

8. **Comments on "Subcontracted Clerical Labor Billed Before Price Waterhouse Had Contractual Control of the Subcontracted Personnel."** PW has not analyzed this issue due to its *de minimis* dollar impact ($544).

9. **Comments on "Employees and Subcontracted Personnel Billed for More Hours Than Reported on Their Time Sheets."** PW has not analyzed this issue due to its *de minimis* dollar impact ($295).

10. **Comments on "Adjustment for Duplicated Questioned Costs."** PW has not analyzed this issue due to its nature as a credit.

* * * *

As a responsible professional service firm and government contractor, PW took the initiative to resolve all matters that it thought could be of legitimate audit interest to the RTC or your office. Based upon your

personal attendance at PW's April 30, 1993 briefing, you know that PW voluntarily rebilled the entire HomeFed engagement to give effect to those issues, resolving each of them in the RTC's favor, regardless of the analytical merit of the position the RTC would have likely asserted.

Especially against this backdrop, PW must reject substantially all of the IG's comments as being "makeweight" issues that are legally without basis and factually without merit. We do not believe that the IG has a principled basis in law for recommending, or otherwise inducing, the Office of Contracts to default in paying PW's outstanding bills on account of any of these comments. PW expects full payment of all of its outstanding invoices.

Sincerely,

Edward J. Haller

Enclosures

cc/w/encl.:
Mr. John Tierney (RTC/Office of Contracts)
Ronald B. Hauben, Esq. (PW/National)
David R. Johnson, Esq. (GD&C/DC)

ATTACHMENT C

TPS Imaging Subcontract
August 7, 1992

TEL: 301-897-4302 Jun 30.93 16:24 No.035 P.01

750 B Street, Suite 2400
San Diego, CA 92101 Telephone [illegible]

Price Waterhouse

VIA FAX

February 26, 1993

Mr. Steven J. Metildi
Department Head
Contract Management
California Office
4000 MacArthur Boulevard
Newport, CA 92660-2516

Dear Steve:

As you requested, we are providing you with a copy of Price Waterhouse's contract (plus two related documents) with TPS Imaging Solutions, the microfilm vendor who worked for us on the HomeFed project. Your contact at TPS will be:

David Crowder
President
TPS Imaging Solutions
110 Vista Centre Drive
Forest, VA 24551
Tel: 804-385-4600
800-277-2771
Fax: 804-385-4996

We have notified Dave that the RTC will be taking over the contract. He is available to answer any questions you might have.

Yours truly,

Robert Jerome

Enclosures: TPS Contract, with cover letter dated June 18, 1992
Addendum to June 18th Proposal dated August 7, 1992
TPS letter dated October 21, 1992

cc: Cornell Hills (without enclosures)
Kitty Russell (without enclosures
Mary Ann Benson (with enclosure

TPS Imaging Solutions

June 18, 1992

Mr. Rob Jerome
Partner
Price Waterhouse
530 Fifth Avenue
New York, NY 10036

Dear Mr. Jerome:

Thank you for the opportunity to present our proposal for the microfilming services to be provided for you in downtown San Diego. With the magnitude of this project, and the nature of the "unforgiving" deadlines, our management team has designed what we feel to be the most efficient workflow that still assures quality control. We have taken our unique experiences in similar projects (especially our most recent successful conversion in Richmond with Grant-Thornton) to assure the necessary control and lines of communications between Price Waterhouse and TPS are in place.

Thank you for your time and we look forward to serving you.

Sincerely,

Dave Crowder
President

DLC:mjr

110 Vista Centre Drive • Forest, VA 24551 • (804) 385-4600 • (800) 277-2771 • FAX (804) 385-4995

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III. Specifications and Requirements

IV. Pricing

I. CURRENT SITUATION:

Price Waterhouse is responsible for the microfilming of approximately 7 million to 10.4 million pages of loan files for the RTC in the San Diego area. Each loan will average approximately 2000-3000 pages with a loan having the ability of being as large as 20-30 boxes. The conversion of the pages to microfilm is for the purpose of archiving these records according to RTC procedure. At this point, it is estimated that 75% of these pages are from the original files and 25% have been copied. The copied pages are one-sided and free from staples, paper clips, and other characteristics common to "original files."

Because of the nature of these files and the involvement of the RTC, these files cannot be removed from the client site in downtown San Diego. It is assumed that there is appropriate space to perform all document preparation, microfilming, document reconstruction (of the original files), and quality inspection. The entire project must be completed by September 2, 1992.

II. PROPOSED SOLUTION:

TPS Imaging Solutions will provide the necessary supervisory personnel and equipment to convert the estimated number of pages to 16mm roll microfilm. Price Waterhouse will provide all temporary personnel.

*Staff: Operations will be 24 hours a day (three shifts), Monday through Saturday. Each shift will have a "Shift Leader" who is a TPS Imaging Solutions employee. We will need approximately 50-60 people on the first shift, 40-45 on the second shift, and 30-35 on the third shift (these temporaries provided by Price Waterhouse). Each shift will be broken down into teams of ten - each team having its own "team leader." The team leader is a higher paid individual with previous experience in the training and supervising of personnel in similar projects (these are also temporaries provided by Price Waterhouse). The team leaders will report production averages and quality issues to the particular Shift Leader on a regular basis throughout their shift. The Shift Leader is responsible for the overall production and quality of teams and front-line communication with Price Waterhouse employees regarding workflow, prioritizing applications, and the scheduling of temporaries. The Shift Leaders will have daily communication with the Project Manager. The Project Manager will have complete responsibility for the production of the project and will be on-site for the first several weeks and then on an incremental basis throughou' the completion of the conversion.

*Equipment: TPS Imaging Solutions will provide 18-20 planetary cameras and 3 inspection stations on-site throughout the length of the project. At least two of the cameras will be Minolta DAR 2800 automatic planetaries to be used on the clean one-sided copies. We have immediate availability of up to 16 additional planetaries at one of our suppliers' sites and unlimited other planetaries from the manufacturers with 10 days notice. Based on the quantities presented, however, we feel the 18-20 cameras will assure the meeting of the deadline. All cameras will have the ability to produce eye-readable frame numbers on the microfilm and produce single-level blips under each page. Due to the nature of the files, we have determined it to be more prudent to contract a "local" Fuji accredited laboratory (which must meet the same stringent control requirements which we meet in our accredited laboratory in Lynchburg, Virginia) for processing services and to also provide the inspection of the microfilm on-site. This will allow for quicker reconstruction, and thus, quicker re-entry of the file into the system for access.

*Layout: For proper workflow and the most efficient workplace possible, we would recommend a minimum of 3500 square feet and would like to have 4500 to 5000 square feet, if possible.

III. SPECIFICATIONS

1. TPS Imaging Solutions will convert approximately 7 million to 10.4 million loan file pages to 16mm silver halide roll microfilm by September 2, 1992 while on-site in downtown San Diego.

2. All original files will prepared for filming. Proper document preparation includes the removal of all staples and paper clips, taping torn edges, preparation of necessary eye-readable pages to indicate the beginning of a new section of a file, and the preparation of the index which will follow the pages to the camera for the completion of frame numbers by the camera operator.

Mr. Rob Jerome
Price Waterhouse

Page Three

3. All copied pages are assumed to be 8.5"x14" and free from the document preparation procedure with the exception of the preparation of eye-readables and the index. It is also assumed that the copied pages are 100% one-sided.

4. All pages will be converted to 16mm silver halide microfilm at a 32x reduction via state-of-the-art planetary cameras. All film will carry a minimum of 175 l.p.m. in resolution, and will carry a density of 1.05, +or- .05.

5. Methylene blue tests will be provided to assure the archival quality of the microfilm.

6. Each microfilm image will be identified by the unique number beside it on the film provided by the sequential frame number feature of each camera. The first page of each loan, along with the first page of each section of the loan will be recorded on the index. This index will then be data entered and provided to Price Waterhouse already loaded in a simple CAR (computer assisted retrieval) software package for uploading to any personal computer. A hardcopy index will also be provided at the end of the project.

7. All microfilm images will be inspected to assure that they meet or surpass the above specifications. Any images not found to meet these specifications, will be refilmed at our cost.

8. The completed original 16mm microfilm will be returned in black plastic boxes with the appropriate labeling. They will be wound on "white" reels with appropriate trailer holders for use in automatic load retrieval devices.

9. Diazo roll film duplicates are available at your request.

Mr. Rob Jerome
Price Waterhouse

Page Four

PRICING:

ITEM	EST VOL	PRICE*	EST TOT
16mm planetary images (clean copies)	2,600,000	$.025 ea.	$65,000
16mm planetary images (original files)	7,800,000	$.0312 ea.	$243,360
16mm roll film diazo duplicates	4000	$7.50 ea.	$30,000

*Price remains constant throughout the project. The actual total will be dictated by actual volume. Terms are net 15, 1%10. If the project surpasses September 2, and it is agreed that this was out of the control of TPS Imaging Solutions, a per diem of $350.00 will be charged until project completion. TPS Imaging Solutions will perform this project under the "cap" of 3235 hours per 1 million images. Any temporary hours over this "cap", we will pay for.

General Conditions regarding the use of Temporaries:

1. TPS Imaging Solutions can expect full cooperation with Price Waterhouse in the hiring, dismissal, and timely (within 24 hours) replacement of personnel for the length of this project.

2. TPS Imaging Solutions' Shift Leaders will be given ample notice for requests for people when Price Waterhouse needs to move temporaries to other operations.

3. TPS Imaging Solutions Shift Leaders will have the opportunity of choosing which temporaries leave the microfilm operation to fund other operations when requested from Price Waterhouse.

Please sign below to show acceptance of the contents of this proposal.

Price Waterhouse	TPS Imaging Solutions
By Robert Jerome	By [signature]
Name Robert Jerome	Name [illegible]
Title Partner	Title President
Date 8/7/92	Date 8/19/92

ADDENDUM TO JUNE 18TH PROPOSAL
August 7, 1992

SECTION I - REVISED UNIT PRICES FOR THE PROJECT

August 10 through October 12, 1992:
TPS Supplies the Temporary Employees

At your request, the following are prices for the microfilming project if TPS supplies all temporary labor from August 10 through October 12, 1992. During this time, we expect to film approximately 2,812,000 images of asset files and approximately 295,000 asset file updates. To date, approximately 1,791,100 images have been filmed. All Investor files and investor file updates and the remaining asset file updates (approximately 919,000 images) will be filmed at a later date. The price for filming these 919,000 pages will be determined at that time. The per image prices quoted in the June 18th proposal apply up to October 10 only, during which time TPS did not supply the temporary labor.

ITEM	PRICE*
16mm Planetary Images - Clean Copies	$56.00/1000
16mm Planetary Images - Original Files	$73.00/1000
16mm Roll Film Diazo Duplicates	$7.50 each
Plat Maps/Drawings	$.60 each

*Terms and conditions are listed in Section II of this addendum.

SECTION II - TERMS AND CONDITIONS

1. Payment terms are net 45 days.

2. The $350.00 per diem charge that was to have been effective after September 2 will not be assessed.

3. TPS exclusively will film the documents related to this RTC project.

4. In the event that language in this addendum contradicts language in the June 18 proposal, the language of this addendum will supersede the language in the June 18, 1992 proposal.

5. Due to the commitment to this project that TPS has made in terms of both equipment and labor, TPS reserves the right to bill for downtime due to changes by the RTC or Price Waterhouse in scheduling of work. These

items will be documented for approval as soon as possible after the incider causing the downtime. This time will be billed hourly per the following schedule:

POSITION	HOURLY RATE*
Production	$6.90
Team Leader	$10.36
Administrative Asst.	$12.00
TPS Shift Leader	$18.75
TPS Project Leader	$28.75

*These rates reflect TPS cost with no add-ons.

5. The prices submitted in this proposal and addendum are subject to change i the following assumptions and specifications are changed or added to:

   a. TPS acknowledges that asset files vary greatly in size and organization.

   b. At the document preparation stage, TPS will make the documents camera-ready including the designation of File folders,Tab Dividers an the insertion of "PQ" Sheets as necessary.

   c. TPS will film all documents at a 32x reduction on 16mm silver halide microfilm using high-resolution planetary cameras per the following:
   -Each image will have an image mark (blip).
   -Each image will have a unique sequential number on the film.
   -Large loans (1500 pages or more) will be filmed one to a roll.
   -Smaller loans will be filmed contiguously on a roll(s) of film with consecutive numbering throughout the roll and clear indication (i.e. Start Sheets, End Sheets, Certificates) between each asset file.
   -Smaller collections of documents (i.e. Collateral, Supplemental Files, Title Agreements) will be filmed contiguously on a roll(s) of film with consecutive numbering throughout the roll and clear indication (i.e. Start Sheets, End Sheets, Certificates) between each asset file.

Addendum to the June 18 Proposal
August 7, 1992

SECTION III - CONFIDENTIAL INFORMATION; OWNERSHIP IN WORK PRODUCT

[Copied from the RTC contract with Price Waterhouse]

1.1 Confidentiality of Nonpublic Information.

1.1.1. Definition of Nonpublic Information. For purposes of this Agreement, all information that RTC provides to Contractor in connection with its duties under this Agreement shall be deemed to be nonpublic ("Nonpublic Information") under 12 C.F.R. Part 1606 until RTC specifically authorizes Contractor in writing to treat any such information as public. Nonpublic Information also shall include (a) any specifications, knowhow, strategies or technical data, processes, business documents or information, marketing research or other data, customer or client lists, or sources of information which are owned, used or possessed exclusively by or for the benefit of RTC, (b) Work Product (as defined in Section 1.3 below), and (c) all confidential information or materials obtained by Contractor from a third party in connection with performance under this Agreement until RTC specifically authorizes Contractor in writing to treat any such information as public.

1.1.2. Duty to Maintain Confidentiality of Nonpublic Information. Contractor shall strictly comply with the requirements of 12 C.F.R. Part 1606 in dealing with all Nonpublic Information it obtains in connection with its performance under this Agreement, and, except as required by any law, court order, subpoena or by RTC, or as required to perform Contractor's duties under this Agreement, neither Contractor nor its Related Entities shall disclose Nonpublic Information to anyone, nor shall they use or allow the use of any Nonpublic Information to further any private interest other than as contemplated by this Agreement. Contractor shall take appropriate measures in accordance with the requirements of 12 C.F.R. Part 1606 to ensure the confidentiality of all Nonpublic Information and to prevent its inadvertent or unintentional disclosure or its inappropriate use by Contractor or its Subcontractors, by its or their employees or Related Entities. This duty shall survive the expiration or termination of this Agreement.

1.2. Notice of Orders Requiring Disclosure of Nonpublic Information. Contractor shall immediately notify RTC in writing of any subpoena or court order requiring disclosure of Nonpublic Information, shall, in accordance with RTC's direction, appeal or challenge such subpoena or court order before disclosure, and shall cooperate fully with RTC in challenging any subpoena or order requiring the

disclosure of Nonpublic Information. Contractor may disclose Nonpublic Information only with RTC's prior written consent. Contractor shall have no authority to disclose Nonpublic Information except in conformity with this Article.

1.3. Work Product. The work product of Contractor shall mean any and a tangible products, reports, information recorded by whatever medium, documents written materials, documentation and any and all other work product, or any portion thereof, prepared, generated or provided by Contractor in connection with Contractor's performance under this Agreement ("Work Product").

1.4. Rights in Work Product. All Work Product shall be the sole property of RTC. Contractor hereby assigns all rights, title and interest to RTC in any and all Work Product, and all drafts thereof, including all worldwide copyright ownership rights in such Work Product.

1.5. Proprietary Interest and License in Software and Systems. RTC and Contractor agree that RTC shall have the exclusive and absolute right, title and interest in and to all accounting and reporting systems and software owned by RTC, or otherwise obtained or developed by RTC at RTC's expense, and furnished to Contractor for use in the performance of Contractor's Services under this Agreement. Contractor hereby grants, and RTC accepts, and absolute, irrevocable and unconditional license, and without additional cost to RTC, to use any and all systems or software owned by Contractor, or otherwise obtained or developed by Contractor at Contractor's expense, for use in the performance of Contractor's Services under this Agreement.

Addendum to the June 18 Proposal
August 7, 1992

Acceptance of Addendum:

David Crowder
TPS Imaging Solutions

Robert Jerome 8/7/92
Robert Jerome
Price Waterhouse

ATTACHMENT D

Response to Missing Timesheets

Response to Missing Timesheets

Timesheets supporting Price Waterhouse billings for instances where the RTC has indicated that billings are unsupported are being provided under separate cover. The timesheets are arranged alphabetically by person according to the RTC's Summary of Findings reports which accompanied your August 19, 1993, October 4, 1993, and November 5, 1993 fee analysis letters. The alphabetically-sorted timesheets are grouped in bundles by billing period.

The attached exception reports (one for each billing period) list persons and hours in the billing period where admitted posting errors occurred or where hours remain "unsupported" in whole or in part, which are subject to further research by PW. Each of the aforementioned timesheet bundles also has its applicable exception report filed with it.

The table below summarizes the current status of the "Unsupported" items the RTC has brought to our attention.

"Unsupported" Cootractor In-House & Professional Agency Fees			
Initial "Unsupported" Deficiencies		($237,951)	
Support Being Provided		228,029	
Admitted Posting Errors		($ 9,922)	
Hours Identified As Underbilled by RTC*:		$ 19,463	
Net Billing Increase Due PW--Professional			$9,541
"Unsupported" Clerical Agency Fees			
Initial "Unsupported" Deficiencies		($403,557)	
Support Being Provided		370,989	
Admitted Posting Error	(2,282)		
Subject to Further Research	(30,286)		
		($ 32,568)	
Hours Identified As Underbilled by RTC*:		$ 45,397	
Net Billing Increase Due PW--Clerical			$ 12,829
TOTAL BILLING INCREASE DUE PW			$ 22,370

* According to the *RTC Fee and Expense Bill Analysis Summary of Findings* reports, not verified by PW.

Contract: 700-91-0072
Task Order: WRO-075

PROFESSIONAL FEES
PRICE WATERHOUSE PARTIALLY SUPPORTED/UNSUPPORTED HOURS BILLED
ALL BILLING PERIODS
(R=RETROACTIVELY BILLED DURING THIS PERIOD)

NAME	BILLING PERIOD	TOTAL HOURS BILLED	POSTING ERRORS --HOURS	RATE	POSTING ERRORS --DOLLARS
JONES, DAVE D.	6/30/92 (R)	1.00	(1.00)	17	(17.00)
TURNER, SHERI	8/15/92	39.00	(39.00)	59	(2,301.00)
CARNEY, CLAY	8/31/92	16.00	(16.00)	134	(2,144.00)
ALTIG, ANTHONY E.	10/15/92 (R)	6.00	(6.00)	160	(960.00)
BARANICK, DAVID	10/15/92 (R)	16.00	(8.00)	160	(1,280.00)
KHARBANDA, RASHMI	11/30/92 (R)	7.00	(7.00)	59	(413.00)
LALONDE, JOSEPH	11/30/92 (R)	4.00	(4.00)	59	(236.00)
POWER, MARY ANN	11/30/92 (R)	3.00	(3.00)	160	(480.00)
RABENHORST, JAMES	11/30/92 (R)	1.00	(1.00)	160	(160.00)
AHLUWALIA, REENA	3/15/93	89.00	(1.00)	59	(59.00)
SEJUT, M.D.	3/15/93	6.00	(6.00)	39	(234.00)
PATTON, DEBRA	6/30/92 (R)	3.00	(3.00)	59	(177.00)
VORATH, CINDY	7/31/92	1.00	(1.00)	79	(79.00)
GUEYDAN, SUZANNE	8/31/92	8.00	(8.00)	59	(472.00)
HYDOSKI, FRANK	1/31/93 (R)	2.00	(2.00)	160	(320.00)
MEMMERT, MARCUS	1/31/93 (R)	10.00	(10.00)	59	(590.00)
TOTAL		212.00	(116.00)		(9,922.00)

Contract: 700-91-0072
Task Order: WRO-075

AGENCY FEES
PRICE WATERHOUSE PARTIALLY SUPPORTED/UNSUPPORTED HOURS BILLED

SUMMARY BY BILLING PERIOD

	GROUP A Further Research	GROUP B Posting Error	TOTAL
6/15/92	(18,827.50)	(297.50)	(19,125.00)
6/30/92	(3,506.25)	(510.00)	(4,016.25)
7/15/92	(34.00)	110.50	76.50
7/31/92	(955.40)	(1,045.50)	(2,000.90)
8/15/92	(1,013.20)	(25.50)	(1,038.70)
8/31/92	(2,894.25)	0.00	(2,894.25)
9/15/92	0.00	(42.50)	(42.50)
9/30/92	(34.00)	0.00	(34.00)
10/31/92	(1,853.00)	0.00	(1,853.00)
11/15/92	(340.00)	(17.00)	(357.00)
11/30/92	(221.00)	0.00	(221.00)
12/15/92	(136.00)	0.00	(136.00)
2/15/93	0.00	(408.00)	(408.00)
4/30/93	(471.75)	(46.75)	(518.50)
TOTAL	(30,286.35)	(2,282 25)	(32,568.60)

Contract: 700-91-0072
Task Order WRO-078

AGENCY FEES
PRICE WATERHOUSE PARTIALLY SUPPORTED/UNSUPPORTED HOURS BILLED

JUNE 15, 1992 BILLING PERIOD

NAME	TOTAL HOURS BILLED	UNSUPPORTED HOURS PER RTC	RATE	AMOUNT UNSUPPORTED PER RTC	UNSUPPORTED HOURS PER PW	AMOUNT UNSUPPORTED PER PW	GROUP A	GROUP B
ALJOE, LEONARD	51 25	(2 25)	17 00	($38 25)	(2 25)	($36 25)	(36 25)	
AQUE, JERRY	71 25	(2 50)	17 00	($42 50)	(2 50)	($42 50)	(42 50)	
BICHEL, STEVE	11 50	(0 75)	17 00	($12 75)	(0 75)	($12 75)	(12 75)	
BARNES, GRACE	64 00	(18 00)	17 00	($272 00)	(16 00)	($272 00)	(272 00)	
BARRERAS, ROSALIE	49 50	(49 50)	17 00	($841 50)	(9 00)	($153 00)	(153 00)	
BOYLE, ALICIA	47 00	(1 00)	17 00	($17 00)	(1 00)	($17 00)	(17 00)	
BRAMER, RICHARD T	21 75	(10 75)	17 00	($182 75)	(10 75)	($182 75)	(182 75)	
BROOKS, DETROIT	52 00	(8 00)	17 00	($136 00)	(8 00)	($102 00)	(102 00)	
CLARK, LAFRANCE	9 50	(9 50)	17 00	($161 50)	(9 50)	($161 50)	(161 50)	
CLARK, REGINALD	166 50	(80 00)	17 00	($1,360 00)	(80 00)	($1,360 00)	(1,360 00)	
COOK, SIMONE	86 50	(24 00)	17 00	($408 00)	(20 00)	($340 00)	(340 00)	
DE LEON, ALLAN	82 25	(3 75)	17 00	($63 75)	(3 75)	($63 75)	(63 75)	
DOCTOR, MIGUEL	47 50	(15 50)	17 00	($263 50)	(15 50)	($263 50)	(263 50)	
ESMAO, JULIETA	112 50	(56 50)	17 00	($960 50)	(56 50)	($960 50)	(960 50)	
GADSEN, S	11 50	(11 50)	17 00	($195 50)	(11 50)	($195 50)	(195 50)	
GARCIA, IRENE	131 25	(7 25)	17 00	($123 25)	(7 25)	($123 25)	(123 25)	
GILLESPIE, TRACY	31 25	(8 50)	17 00	($144 50)	(8 50)	($144 50)	(144 50)	
GUMS, L	51 75	(51 75)	17 00	($879 75)	(51 75)	($879 75)	(879 75)	
HAGSTROM, CARRIE	8 75	(8 75)	17 00	($148 75)	(8 75)	($148 75)	(148 75)	
HAWKINS, SCOTT	4 00	(4 00)	17 00	($68 00)	(4 00)	($68 00)	(68 00)	
HEBERT, JASON	66 00	(8 00)	17 00	($136 00)	(3 00)	($51 00)	(51 00)	
HILL, LARNY	46 00	(14 00)	17 00	($238 00)	(14 00)	($238 00)	(238 00)	
JARVIS, MITCHELL	93 25	(5 50)	17 00	($93 50)	(5 50)	($93 50)	(93 50)	
JOHNSON, TARRY	78 00	(8 00)	17 00	($136 00)	(8 00)	($136 00)	(136 00)	
JONES, DIANE	69 25	(54 75)	17 00	($930 75)	(54 75)	($930 75)	(930 75)	
KING, SIRPIRINA	79 00	(13 00)	17 00	($221 00)	(13 00)	($221 00)	(221 00)	
LONG, P	8 50	(8 50)	17 00	($144 50)	(8 50)	($144 50)	(144 50)	
LUZON, MARIA	110 00	(16 00)	17 00	($272 00)	16 00	$272 00	272 00	
MASTRE, PIA	84 00	(8 00)	17 00	($136 00)	(8 00)	($138 00)	(136 00)	
MONTEMAYOR, CELINA	123 50	(23 50)	17 00	($399 50)	(3 50)	($59 50)	(59 50)	
MORRIS, CHARLES	45 50	(4 50)	17 00	($76 50)	(4 50)	($78 50)	(78 50)	
NAVALES, EDERLINDA	80 50	(40 50)	17 00	($688 50)	(40 50)	($688 50)	(688 50)	
NORTH, DEBBIE	120 00	(41 50)	17 00	($705 50)	(41 50)	($705 50)	(705 50)	
ODOM, TRACI	63 00	(3 00)	17 00	($51 00)	(3 00)	($51 00)	(51 00)	
OROURKE, JEAN	125 00	(12 00)	17 00	($204 00)	(12 00)	($204 00)	(204 00)	
PABLO, MICHAEL	15 50	(15 50)	17 00	($263 50)	(15 50)	($263 50)	(263 50)	
PATEL, SURBHI	202 00	(65 75)	17 00	($1,117 75)	(60 25)	($1,024 25)	(1,024 25)	
PATEL, RANJANBALA	202 00	(70 75)	17 00	($1,202 75)	(60 25)	($1,024 25)	(1,024 25)	
POLK, BARBARA	33 50	(3 00)	17 00	($51 00)	(3 00)	($51 00)	(51 00)	
POPE, BRIGETTE	15 75	(7 75)	17 00	($131 75)	(7 75)	($131 75)	(131 75)	
PRINDLE, JO	95 75	(5 25)	17 00	($89 25)	(5 25)	($89 25)	(89 25)	
RAMIREZ IRENE	16 00	(16 00)	17 00	($272 00)	(16 00)	($272 00)	(272 00)	
RAPP, M	224 50	(68 25)	17 00	($1,160 25)	(68 25)	($1,160 25)	(1,160 25)	
RAYHILL, JAMES	64 00	(8 00)	17 00	($136 00)	(8 00)	($136 00)	(136 00)	
REYES MARIA	19 25	(1 50)	17 00	($25 50)	(1 50)	($25 50)	(25 50)	
RIGGS, ROBERT	7 25	(0 75)	17 00	($12 75)	(0 75)	($12 75)	(12 75)	
ROMAIN, ALFRED	43 50	(3 00)	17 00	($51 00)	(3 00)	($51 00)	(51 00)	
ROMO, DIANNA	69 00	(8 00)	17 00	($136 00)	(8 00)	($136 00)	(136 00)	
SCHENEMAN, SHANNON	93	(6 00)	17 00	($102 00)	(6 00)	($102 00)		(102 00)
SINCLAIR, MARK	42 5	(12 50)	17 00	($212 50)	(12 50)	($212 50)	(212 50)	
SMITH, MILTON	10 25	(2 75)	17 00	($46 75)	(2 75)	($46 75)	(46 75)	
SMITH, RUSSELL	34 00	(10 00)	17 00	($170 00)	(10 00)	($170 00)	(170 00)	
SMITH TIMOTHY	149 25	(82 75)	17 00	($1,406 75)	(11 50)	($195 50)		(195 50)
SOLIS, RALPH	30 00	(4 00)	17 00	($68 00)	(4 00)	($68 00)	(68 00)	
SORIA, WILLIAM	16 00	(16 00)	17 00	($272 00)	(16 00)	($272 00)	(272 00)	
SWERDA, JACK	27 25	(11 75)	17 00	($199 75)	(11 75)	($199 75)	(199 75)	
TAFOLLA, MANUEL	27 25	(13 75)	17 00	($233 75)	(13 75)	($233 75)	(233 75)	
TOBIN, ERWIN	56 00	(8 00)	17 00	($136 00)	(8 00)	($136 00)	(136 00)	
TOFLING, ANDREW	32 00	(32 00)	17 00	($544 00)	(32 00)	($544 00)	(544 00)	
TOMSIH, MICHAEL	8 75	(2 25)	17 00	($38 25)	(2 25)	($36 25)	(38 25)	
TOON, EMILY	96 5	(59 00)	17 00	($1,003 00)	(59 00)	($1,003 00)	(1,003 00)	
WOOD, JOANN	57 25	(57 25)	17 00	($973 25)	(57 25)	($973 25)	(973 25)	
WRIGHT, RANDY	57 5	(17 50)	17 00	($297 50)	(17 50)	($297 50)	(297 50)	
YOUNG, ROXANNE	156 25	(86 25)	17 00	($1 466 25)	(74 25)	($1 262 25)	(1 262 25)	
TOTALS	4176 75	(1,327 75)		($22 571 75)	(1 125 00)	($19 125 00)	(18 827 50)	(297 50)

Contract: 700-91-0072
Task Order: WRO-075

AGENCY FEES
PRICE WATERHOUSE PARTIALLY SUPPORTED/UNSUPPORTED HOURS BILLED

JUNE 30, 1992 BILLING PERIOD

NAME	TOTAL HOURS BILLED	UNSUPPORTED HOURS PER RTC	RATE	AMOUNT UNSUPPORTED PER RTC	UNSUPPORTED HOURS PER PW	RATE	AMOUNT UNSUPPORTED	GROUP A	GROUP B
CATLIN, GAY	77 00	(77 00)	17	($1,309 00)	(62 00)	17	($1,054 00)	(1,054 00)	
DECKER, DIANA	82 50	(10 00)	17	($170 00)	(10 00)	17	($170 00)	(170 00)	
JONES, CHRISTOFER	56 00	(32 00)	17	($544 00)	(32 00)	17	($544 00)	(544 00)	
MARQUEZ, VICTOR	52 00	(5 50)	17	($93 50)	(5 50)	17	($93 50)	(93 50)	
McNEALY, M.	11 50	(11 50)	17	($195 50)	0 50	17	$8 50		8 50
MORRIS, JERI	112 00	(55 00)	17	($935 00)	(55 00)	17	($935 00)	(935 00)	-
RODRIGUEZ, MARIEL	9 00	(9 00)	17	($153 00)	(5 00)	17	($85 00)	(85 00)	
VARNADO, PRISCILLA	56 00	(8 00)	17	($136 00)	(8 00)	17	($136 00)	(136 00)	
WESLEY, KIMBERLY	93 00	(30 50)	17	($518 50)	(30 50)	17	($518 50)		(518 50)
WILLIAMS, HAROLD	39 50	(39 50)	17	($671 50)	(28 75)	17	($488 75)	(488 75)	
TOTAL		(278 00)		($4,726 00)	(236 25)		($4,016 25)	(3,506 25)	(510 00)

Contract: 700-91-0072
Task Order: WRO-075

AGENCY FEES
PRICE WATERHOUSE PARTIALLY SUPPORTED/UNSUPPORTED HOURS BILLED

JULY 15, 1992 BILLING PERIOD

NAME	TOTAL HOURS BILLED	UNSUPPORTED HOURS PER RTC	RATE	AMOUNT UNSUPPORTED PER RTC	TOTAL SUPPORTED HOURS	UNSUPPORTED HOURS PER PW	RATE	AMOUNT UNSUPPORTED PER PW	GROUP A	GROUP B
LAMONT, CHARLES	61 00	(2 25)	17	($38 25)	59 25	(1 75)	17	($29 75)		(29 75)
JOHNSON, SHAREE	71.75	(19 00)	17	($323 00)	76 75	5 00	17	$85 00		85 00
MARGARINI, RHODA	84 00	(0 25)	17	($4 25)	84 75	0 75	17	$12 75		12 75
OLIVA, JOHN	91 25	(5.50)	17	($93.50)	85 75	(5 50)	17	($93 50)		(93 50)
SPEARS, FRANCIS M.	78 00	(2 00)	17	($34 00)	74 00	(2 00)	17	($34 00)	(34 00)	
WHITSON, SARETTA	44 00	(44.00)	17	($748.00)	52 00	8 00	17	$136 00		136 00
TOTAL	428 00	(73.00)		($1,241.00)	432.50	4 50		$76 50	(34.00)	110 50

Contract: 700-91-0072
Task Order: WRO-075

AGENCY FEES
PRICE WATERHOUSE PARTIALLY SUPPORTED/UNSUPPORTED HOURS BILLED

JULY 31, 1992 BILLING PERIOD

NAME	TOTAL HOURS BILLED	UNSUPPORTED HOURS PER RTC	TOTAL SUPPORTED HOURS	RATE	AMOUNT UNSUPPORTED PER RTC	UNSUPPORTED HOURS PER PW	RATE	AMOUNT UNSUPPORTED	GROUP A	GROUP B
DUNDUZA, LUMUMBA	61 90	(11 90)	50 00	17	($202 30)	(11 90)	17	($202 30)	(202 30)	
ENSLEY, ROSALINDA	79 25	(0 75)	78 50	17	($12 75)	(0 75)	17	($12 75)		(12 75)
FREEMAN, NATASHA	93 00	(12 50)	80 50	17	($212 50)	(12 50)	17	($212 50)	(212 50)	
GEORGE, TA-TANISHA	37 30	(17 30)	20 00	17	($294 10)	(17 30)	17	($294 10)	(294 10)	
GONZALES, JOSEFINA	94 00	(3 75)	41 50	17	($63 75)	(3 75)	17	($63 75)		(63 75)
JACKSON, NORMAN	81 50	(30 50)	92 50	17	($516 50)	11 00	17	$187 00		187 00
JOHNSON, BRENDA	31 50	(14 50)	17 00	17	($246 50)	(14 50)	17	($246 50)	(246 50)	
PONTILLAS, CEASAR	83 00	(28 00)	55 00	17	($476 00)	(28 00)	17	($476 00)		(476 00)
RAMIREZ, NORMA	135 00	(40 00)	95 00	17	($680 00)	(40 00)	17	($680 00)		(680 00)
TOTAL	696 45	(159 20)	530 00		($2,706 40)	(117 70)		($2,000 90)	(955 40)	(1,045 50)

Contract: 700-91-0072
Task Order: WRO-075

AGENCY FEES
PRICE WATERHOUSE PARTIALLY SUPPORTED/UNSUPPORTED HOURS BILLED

AUGUST 15, 1992 BILLING PERIOD

NAME	TOTAL HOURS BILLED	UNSUPPORTED HOURS PER RTC	TOTAL SUPPORTED HOURS	RATE	AMOUNT UNSUPPORTED PER RTC	UNSUPPORTED HOURS PER PW	RATE	AMOUNT UNSUPPORTED	GROUP A	GROUP B
CHASE, REGINALD K	11.00	(11 00)	0 00	17	($187 00)	(11.00)	17	(187 00)	(187 00)	
COOK, JAMES	27 10	(27.10)	0 00	17	($460 70)	(27 10)	17	(460 70)	(460 70)	
DUNDUZA, LUMUMBA	12 50	(12.50)	0 00	17	($212 50)	(12 50)	17	(212 50)	(212 50)	
PIERRE, CARLOS R.	115.50	(1 00)	114 50	17	($17 00)	(1 00)	17	(17 00)		(17 00)
POPE, YVONNE	87.50	(9 00)	78 50	17	($153 00)	(9 00)	17	(153 00)	(153 00)	
RUSSELL, SHIRLEY	40.75	(0.50)	40 25	17	($8 50)	(0 50)	17	(8 50)		(8 50)
TOTAL	294.35	(61.10)	233.25		(1,038 70)	(61 10)		(1,038 70)	(1,013 20)	(25 50)

Contract: 700-91-0072
Task Order: WRO-075

AGENCY FEES
PRICE WATERHOUSE PARTIALLY SUPPORTED/UNSUPPORTED HOURS BILLED

AUGUST 31, 1992 BILLING PERIOD

NAME	TOTAL HOURS BILLED	UNSUPPORTED HOURS PER RTC	TOTAL SUPPORTED HOURS	RATE	AMOUNT UNSUPPORTED PER RTC	UNSUPPORTED HOURS PER PW	RATE	AMOUNT UNSUPPORTED PER PW	GROUP A	GROUP B
ALLEYNE, SHARON	8 00	(8 00)	0 00	17	($136 00)	(8 00)	17	($136 00)	(136 00)	
BANKS, KAREN	8 00	(88 00)	0.00	17	($1,496 00)	(8 00)	17	($136 00)	(136 00)	
CEBALLOS, ALMA	66 00	(20.75)	45.25	17	($352.75)	(20 75)	17	($352.75)	(352.75)	
DOAN, TINA THUY	8 00	(8.00)	0 00	17	($136 00)	(8 00)	17	($136 00)	(136 00)	
FASOLINO, SILVIO	16.00	(16.00)	0 00	17	($272 00)	(16 00)	17	($272 00)	(272 00)	
GUARDACOSTA, JESSE	4.50	(4.50)	0 00	17	($76.50)	(4.50)	17	($76 50)	(76 50)	
JACKSON, NORMAN	40 00	(40 00)	0 00	17	($680 00)	(40 00)	17	($680 00)	(680 00)	
JOHNSON, LAURANCE	4 00	(4 00)	0 00	17	($68.00)	(4 00)	17	($68 00)	(68 00)	
PERRY, JIM	16 00	(16 00)	0 00	17	($272 00)	(16 00)	17	($272 00)	(272 00)	
STARKS, FRANK	87 00	(24 00)	63 00	17	($408 00)	(24 00)	17	($408 00)	(408 00)	
VALDELAMAR, CRYSTAL	16.00	(16 00)	0 00	17	($272 00)	(16 00)	17	($272 00)	(272 00)	
WILSON, KIRSTEN	18.25	(18.25)	13.25	17	($310 25)	(5 00)	17	($85 00)	(85 00)	
TOTAL	291.75	(263 50)	121 50		($4,479.50)	(170.25)		($2,894 25)	(2,894 25)	0 00

Contract: 700-91-0072
Task Order: WRO-075

AGENCY FEES
PRICE WATERHOUSE PARTIALLY SUPPORTED/UNSUPPORTED HOURS BILLED

SEPTEMBER 15, 1992 BILLING PERIOD

NAME	TOTAL HOURS BILLED	UNSUPPORTED HOURS PER RTC	TOTAL SUPPORTED HOURS	RATE	AMOUNT UNSUPPORTED PER RTC	UNSUPPORTED HOURS PER PW	RATE	AMOUNT UNSUPPORTED PER PW	GROUP A	GROUP B
BOONE, DANIELLE	77.50	(6 50)	75 00	17	(110 50)	(2 50)	17 00	(42 50)		(42 50)
TOTAL	77 50	(6 50)	75 00	17	(110 50)	(2 50)	17 00	(42 50)	0 00	(42 50)

Contract: 700-91-0072
Task Order: WRO-075

AGENCY FEES
PRICE WATERHOUSE PARTIALLY SUPPORTED/UNSUPPORTED HOURS BILLED

SEPTEMBER 30, 1992 BILLING PERIOD

NAME	TOTAL HOURS BILLED	UNSUPPORTED HOURS PER RTC	TOTAL SUPPORTED HOURS	RATE	AMOUNT UNSUPPORTED PER RTC	UNSUPPORTED HOURS PER PW	AMOUNT UNSUPPORTED PER PW	GROUP A	GROUP B
ACOSTA, JOSE	2.00	(2.00)	0.00	17	($34.00)	(2.00)	($34.00)	(34.00)	
TOTAL	2.00	(2.00)	0.00	17	($34.00)	(2.00)	($34.00)	(34.00)	0.00

Contract: 700-91-0072
Task Order: WRO-075

AGENCY FEES
PRICE WATERHOUSE PARTIALLY SUPPORTED/UNSUPPORTED HOURS BILLED -

OCTOBER 31, 1992 BILLING PERIOD

NAME	TOTAL HOURS BILLED	UNSUPPORTED HOURS PER RTC	TOTAL SUPPORTED HOURS	RATE	AMOUNT UNSUPPORTED PER RTC	UNSUPPORTED HOURS PER PW	AMOUNT UNSUPPORTED PER PW	GROUP A	GROUP B
DAWSON, KHRISTINE	33 50	(33 50)	0 00	17	($569 50)	(33 50)	($569.50)	(569 50)	
DUNAWAY, SHARON	34.00	(34.00)	32 00	17	($578.00)	(2.00)	($34.00)	(34 00)	
FITZHUGH, JEFFREY	44.50	(2.00)	42.50	17	($34.00)	(2.00)	($34.00)	(34.00)	
GREEN, SARAH	21 50	(21 50)	0 00	17	($365.50)	(21 50)	($365.50)	(365.50)	
HAZARD, VICKY LYNN	20.00	(20.00)	0 00	17	($340 00)	(20 00)	($340.00)	(340 00)	
ISACHSEN, RONALD	30 00	(30 00)	0 00	17	($510 00)	(30 00)	($510.00)	(510 00)	
TOTAL	183 50	(141 00)	74 50		($2,397 00)	(109 00)	($1,853.00)	(1,853.00)	0 00

Contract: 700-91-0072
Task Order: WRO-075

AGENCY FEES
PRICE WATERHOUSE PARTIALLY SUPPORTED/UNSUPPORTED HOURS BILLED

NOVEMBER 15, 1992 BILLING PERIOD

NAME	TOTAL HOURS BILLED	UNSUPPORTED HOURS PER RTC	TOTAL SUPPORTED HOURS	RATE	AMOUNT UNSUPPORTED PER RTC	UNSUPPORTED HOURS PER PW	AMOUNT UNSUPPORTED PER PW	GROUP A	GROUP B
KIRK, ANDRE	29 50	(29 50)	9 50	17	($501 50)	(20.00)	($340 00)	(340 00)	
ROBERTS, STACEY	84.50	(1.00)	83 50	17	($17 00)	(1 00)	($17.00)		(17 00)
TOTAL	114.00	(30.50)	93 00		($518 50)	(21.00)	($357.00)	(340.00)	(17 00)

Contract: 700-91-0072
Task Order: WRO-075

AGENCY FEES
PRICE WATERHOUSE PARTIALLY SUPPORTED/UNSUPPORTED HOURS BILLED

NOVEMBER 30, 1992 BILLING PERIOD

NAME	TOTAL HOURS BILLED	UNSUPPORTED HOURS PER RTC	TOTAL SUPPORTED HOURS	RATE	AMOUNT UNSUPPORTE PER RTC	UNSUPPORTED HOURS PER PW	AMOUNT UNSUPPORTED PER PW	GROUP A	GROUP B
MEJIA, LOURDEZ	31.00	(31.00)	18.00	17	($527.00)	(13.00)	($221.00)	(221.00)	
TOTAL	31.00	(31.00)	18.00		($527.00)	(13.00)	($221.00)	(221.00)	0.00

Contract: 700-91-0072
Task Order: WRO-075

AGENCY FEES
PRICE WATERHOUSE PARTIALLY SUPPORTED/UNSUPPORTED HOURS BILLED

DECEMBER 15, 1992 BILLING PERIOD

NAME	TOTAL HOURS BILLED	UNSUPPORTED HOURS PER RTC	TOTAL SUPPORTED HOURS	RATE	AMOUNT UNSUPPORTED PER RTC	UNSUPPORTED HOURS PER PW	AMOUNT UNSUPPORTED PER PW	GROUP A	GROUP B
ROBERTSON, LAWRENCE	8.00	(8.00)	18.00	17	($136.00)	(8.00)	($136.00)	(136.00)	
TOTAL	8.00	(8.00)	18.00		($136.00)	(8.00)	($136.00)	(136.00)	0.00

Contract: 700-91-0072
Task Order: WRO-07S

AGENCY FEES
PRICE WATERHOUSE PARTIALLY SUPPORTED/UNSUPPORTED HOURS BILLED

FEBRUARY 15, 1993 BILLING PERIOD

NAME	TOTAL HOURS BILLED	UNSUPPORTED HOURS PER RTC	TOTAL SUPPORTED HOURS	RATE	AMOUNT UNSUPPORTED PER RTC	UNSUPPORTED HOURS PER PW	AMOUNT UNSUPPORTED PER PW	GROUP A	GROUP B
DAVIS, CARL	87 00	(3 00)	84 00	17	($51 00)	(3 00)	($51 00)		(51 00)
HOLDAWAY, STEVEN	66 00	(10 00)	56 00	17	($170.00)	(10 00)	($170 00)		(170 00)
ROBERTS, STACEY	92 00	(0 50)	91 50	17	($8 50)	(0 50)	($8 50)		(8 50)
ROBINSON, HOYT	77 00	(0 50)	76 50	17	($8 50)	(0 50)	($8 50)		(8 50)
TORRES, RUBEN	122.50	(10 00)	112 50	17	($170 00)	(10 00)	($170.00)		(170.00)
TOTAL	444.50	(24 00)	420 50		($408 00)	(24 00)	($408 00)	0 00	(408.00)

Contract: 700-91-0072
Task Order: WRO-075

AGENCY FEES
PRICE WATERHOUSE PARTIALLY SUPPORTED/UNSUPPORTED HOURS BILLED

APRIL 30, 1993 BILLING PERIOD (RETRO BILLINGS)

NAME	TOTAL HOURS BILLED	UNSUPPORTED HOURS PER RTC	TOTAL SUPPORTED HOURS	RATE	AMOUNT UNSUPPORTED PER RTC	UNSUPPORTED HOURS PER PW	AMOUNT UNSUPPORTED PER PW	GROUP A	GROUP B
ALLCHIN, MARK	15 75	(15 75)	84 00	17	($267 75)	(15 75)	($267 75)	(267 75)	
BRISENO, MARICELA	42 00	(1 00)	56 00	17	($17 00)	(1 00)	($17 00)		(17 00)
FUMO, BETH	35 75	(0 50)	91 50	17	($8 50)	(0 50)	($8 50)		(8 50)
HORN, CLEVE	49 00	(49 00)	112 50	17	($833 00)	(1 00)	($17 00)		(17.00)
LUZON, MARIA	12 00	(12 00)	112 50	17	($204 00)	(12 00)	($204 00)	(204 00)	
WILLIAMS, WANDA	8 25	(8 25)	112 50	17	($140 25)	(0 25)	($4 25)		(4.25)
TOTAL	162 75	(86 50)	569 00		($1,470 50)	(30 50)	($518 50)	(471 75)	(46 75)

ATTACHMENT E

Per Diem Certification

Office of Government Services
1801 K Street, N.W.
Washington, D.C. 20006

Telephone 202 296 0800

Price Waterhouse

ATTACHMENT E

November 22, 1993

Mr. John Tierney
Director, Office of Contract Operations
Resolution Trust Corporation
900 17th Street, N.W.
Washington, D.C. 20006

Dear Mr. Tierney:

This is to certify that based upon the results of tests performed under my direction, to the best of my knowledge and belief, the amounts paid by Price Waterhouse to individual travelers for per diem related expenses were in the aggregate no less than the per diem amounts billed to RTC for those travelers.

Edward J. Haller

OFFICE OF
INSPECTOR
GENERAL

RESOLUTION TRUST
CORPORATION

Price Waterhouse Due Diligence Coordination Contract at HomeFed

Meetings and Correspondence in Which
RTC OIG Concerns are Discussed

DEPT PROOF NOV 7 [redacted]

February 1993

Price Waterhouse Due Diligence
Coordination Contract at HomeFed

Documentation of Meetings and Correspondence in Which OIG Concerns
With Price Waterhouse Contract are Discussed

Reference	Date	Description of Meeting or Document	Summary of Information
Tab 1	October 19, 1992	Mr. Adair met with Mr. Casey (Copy of meeting agenda was given to Mr. Casey at each meeting.	Mr. Adair discussed and provided to Mr. Casey the 10/16/92 memo from Sharon Vander Vennet, AIG for Audit, to Mr. Adair, indicating concern with excessive rates being charged by PW; open-ended nature of the contract; and similarity to "Western Storm."
Tab 2	October 28, 1992	OIG Activities Report from Mr. Adair to Secretary Brady, as Chairman of the Thrift Depositor Protection Oversight Board (TDPOB). (Mr. Casey received a copy of this report.)	The report discussed OIG audit of PW contract. Indicated OIG belief that rates are excessive. Also noted that (1) contract has no limits on total amount RTC can be charged, (2) work and billings have not been adequately monitored, and (3) the manner in which RTC awarded the contract is of concern to OIG.
Tab 3	November 9, 1992	Mr. Adair met with Mr. Casey	Mr. Adair updated the status of OIG audit of PW contract, including projected cost of contract, billings as of 7/21/92, and average cost per page copied.

Prepared by: RTC Office of Inspector General
Date Prepared: February 17, 1993

Reference	Date	Description of Meeting or Document	Summary of Information
Tab 4	November 19, 1992	Letter from Mr. Adair to Mr. Peter Monroe, President, TDPOB (Mr. Casey received a copy of this letter as a member of TDPOB.)	The letter provided information for 12/1/92 Oversight Board meeting. Referred to ongoing OIG audit of PW contract at HomeFed.
Tab 5	November 30, 1992	Mr. Adair met with Mr. Casey	Mr. Adair updated the status of OIG audit of PW contract, including updated information on contract costs.
Tab 6	December 7, 1992	Mr. Adair met with Mr. Casey	Mr. Adair indicated OIG is drafting memo to Director, Office of Contracts, recommending RTC renegotiate the PW contract. Discussed mark-up on PW billings for temporary employees.
Tab 7	December 21, 1992	Mr. Adair met with Mr. Casey	Mr. Adair discussed and provided OIG memo sent to Office of Contracts that day recommending renegotiation of PW contract. (See 12/21/92 memo below.)
Tab 8	December 21, 1992	Memo from Sharon Vander Vennet, AIG for Audit, to Director, RTC Office of Contracts	The memo discussed OIG audit findings to date, including details of mark-ups on costs by PW for temporary employees. Recommended RTC renegotiate a new contract that better protects RTC's interests.

Reference	Date	Description of Meeting or Document	Summary of Information
Tab 9	January 4, 1993	OIG Activities Report from Mr. Adair to Secretary Brady, as Chairman of TDPOB (Mr. Casey received a copy of this report.)	The report discussed current status of OIG audit of PW contract, including mark-ups on costs by PW for temporary employees. Noted OIG recommendation that RTC renegotiate the contract.
Tab 10	January 21, 1993	Letter from Mr. Adair to Mr. Peter Monroe, President, TDPOB (Mr. Casey received a copy of this letter as a member of TDPOB.	The letter provided information for 2/1/93 Oversight Board meeting. Discussed current status of OIG audit, including recommendation to renegotiate the contract.
Tab 11	February 8, 1993	Mr. Adair met with Mr. Casey	Mr. Adair updated status of OIG audit. Discussed RTC efforts to renegotiate the contract and similarities to "Western Storm."

OCTOBER 19, 1992 MEETING

1. CONCERNS OVER PRICE WATERHOUSE DUE DILIGENCE COORDINATION CONTRACT AT HOMEFED

-- MEMORANDUM FROM ASSISTANT IG FOR AUDIT TO ME DATED 10-16-92 (ATTACHED) INDICATES CONCERN THAT RATES BEING CHARGED ARE EXCESSIVE, GIVEN THE NATURE OF THE SERVICES BEING PROVIDED.

-- ALSO CONCERNED ABOUT OPEN-ENDED NATURE OF THE CONTRACT -- NO LIMITS ON TOTAL AMOUNT PW CAN CHARGE RTC

-- DOES NOT APPEAR RTC HAS SUFFICIENT CONTROLS IN PLACE TO ENSURE COSTS ARE REASONABLE AND PROPER.

-- SIMILAR TO "WESTERN STORM" CONTRACT IN THAT

NO COST LIMITS

HAS NOT BEEN ADEQUATELY MONITORED

AWARDED USING A VEHICLE NOT INTENDED FOR THIS SCOPE OF WORK

-- PW'S PRINCIPAL WORK HAS BEEN TO PHOTOCOPY HOMEFED LOAN FILES.

-- PW PROJECTS TOTAL COSTS OF $25.2 MILLION THOUGH JANUARY 93.

-- OF $14.5 MILLION BILLED THUS FAR, $9.5 MILLION (66%) IS BASICALLY LABOR COSTS FOR PHOTOCOPYING AND MICROFILMING.

-- PW IS BILLING:

$59 FOR STAFF

$79 FOR SENIORS

$134 TO 160 FOR PARTNERS

$20 FOR TEMPORARIES

-- EXPECTED FINAL PHOTOCOPYING COST $14 MILLION FOR 4,000 LOANS, OR $3,500 PER FILE.

-- MOST OF THE ESTIMATED TOTAL COST ALREADY INCURRED

-- WE WILL SEE IF ANY CHARGES CAN BE RECOUPED, OR IF ANY FRAUD IS INVOLVED WITH THIS CONTRACT, AND KEEP YOU APPRISED.

OFFICE OF
INSPECTOR
GENERAL

RESOLUTION TRUST
CORPORATION

DATE: October 16, 1992

MEMORANDUM TO: John J. Adair
Inspector General

Sharon E Vander Vennet

FROM: Sharon E. Vander Vennet
Assistant Inspector General for Audit

SUBJECT: Price Waterhouse Due Diligence Coordination Contract at HomeFed

On July 31, 1992, the Office of Inspector General received an anonymous letter alleging mismanagement, waste, and abuse by Resolution Trust Corporation (RTC) contractor Price Waterhouse (PW) in carrying out its responsibilities under its "Due Diligence Coordination" and "Wrap-up and Investor Support" contract at HomeFed in San Diego, California. The letter contained a number of allegations that PW has mismanaged the contract, including (1) an excessive number of PW professionals assigned to the contract, (2) 95 percent of the work is performed by temporaries, (3) unnecessary and excessive charges for lodging, car rental, and airline travel, (4) over-hiring of temporaries, and (5) inadequate tracking of billable hours.

We have conducted a preliminary review to determine the merits of the allegations. On October 6, 1992, we notified the Vice President, California Office, that we were initiating an audit of PW's contract. Also, because HomeFed is a conservatorship, on October 9, 1992, we notified the Vice President, Field Operations and Accounting, Denver Office of the audit.

The purpose of this memorandum is to make you aware of what we have found to date and our concerns with the contract. We are continuing with our audit work, but based on preliminary work to date, we are concerned that rates being charged under the contract are excessive given the services being provided. We are also concerned about the open-ended nature of the contract. There were no limits on the total amount PW can charge to RTC and it does not currently appear that RTC has sufficient controls in place to ensure that costs are reasonable and proper. In fact, this contract appears plagued by many of the same problems we identified with respect to the "Western Storm" contracts--it has no cost limits, it has not been adequately monitored, it was awarded using a vehicle not intended

for this scope of work, it was approved by an RTC official whose delegated authority is far below the value of this contract, and it is not recorded in RTC's Contractor Activity Reporting System.

CONTRACT TERMS AND CHARGES

On April 28, 1992, RTC solicited bids from contractors under its asset valuation task order agreement "for performance of an Asset Valuation Review" for HomeFed. Bids were due on April 30, 1992. Subsequently, on May 13, 1992, RTC's Contract Office awarded PW a task order under the task order agreement. The task order was approved by the Director, Office of Field Resolutions, Department of Resolutions, who at that time had delegated authority of $500,000. Under the task order, PW is to provide due diligence coordination and wrap-up and investor support at HomeFed. This task order is the largest of several related task orders for due diligence and asset valuation services at HomeFed.

In reality, PW's principal work under the contract has been to photocopy HomeFed loan files. HomeFed is under subpoena, and the Department of Justice (DOJ) would not allow the due diligence contractors to review the original loan documents. Therefore, a copy had to be made of each loan file. Based on the information available, it appears that the scope of the copying activity under the PW contract was approximately 4,000 loans and other assets (the PW contract did not include single family performing loans which were reviewed by Univest using microfiche). PW arrived at HomeFed on May 9, 1992, and copying activities began the week of May 11.

The task order with PW provides that RTC will pay for labor and related travel costs (Grant Thornton, another contractor, is responsible for providing supplies and arranging suitable work locations and adequate equipment). Labor charges will be paid at specified hourly rates per labor category. The task order does not, however, limit the total amount PW can charge RTC. PW estimates that work will continue under the contract through January 31, 1993, and projects total billings of $25.2 million for labor and related travel costs, as shown in Table 1.

Table 1: Estimated Labor Cost of Contract by Category

Task Name[a]	Estimated Cost	Percent of Total
Due diligence interface	$ 1,031,820	4.1
Systems development	1,210,324	4.8
Document management (i.e., copying services)	14,247,999	56.4
Project management and Administration	2,485,051	9.8
War room	2,545,948	10.1
Due diligence quality control	719,697	2.9
PW out of pocket (i.e. travel)	3,000,000	11.9
Total	**$25,240,839**	100.0

[a]See the Appendix to this memorandum for a brief description of each task.
Source: Price Waterhouse Projection as of September 16, 1992

PW billing reports from contract inception on May 13, 1992, through July 31, 1992, show that PW has billed RTC $14.5 million (including travel of $1.7 million). Of the $14.5 million billed through July 31, 1992, $9.5 million, or almost 66 percent, was classified as "Document Management" expenses, which is composed of labor costs for photocopying and microfilming. Table 2 shows Document Management labor charges through July 31, 1992, for PW and temporary employees.

Table 2: Document Management Labor Charges Through July 31, 1992

Category	Charges (in millions)	Hours	Average Hourly Rate
PW Employees and Contracted Professionals	$5.2	73,035	$71.00
Temporaries	4.3	216,312	20.00
Total	**$9.5**	**286,347**	**$33.00**

Source: PW billings and time summaries

About 88 percent of the 73,035 Document Management hours billed through July 31, 1992, were billed at $59 (Staff category) or $79 (Senior category) per hour. Much of the remaining 12 percent was billed at higher rates--$134 or $160 per hour.

PW's total cost projection through completion for Document Management labor charges is over $14 million (excluding related travel costs). Based on the number of asset files apparently within the scope of the contract, Document Management labor charges will equate to over $3,500 per file.

INFORMATION ON SPECIFIC ALLEGATIONS

The following is an overview of the facts we have gathered regarding each allegation.

- **Allegation 1: An excessive number of PW professionals have been assigned to the task order.** Our review of a listing of project staff prepared by PW shows that the project was originally staffed with PW employees and professional contractors from San Diego and surrounding areas. As the copying activities increased during June and July 1992, PW began to bring in staff from many different offices across the United States. The PW listing shows that since contract inception, 578 PW employees from 61 offices located in the United States and Mexico have been assigned to this project for varying periods of time. As of July 1, 1992, there were 306 professionals (272 PW employees and 34 contractors) on-site at HomeFed. Additionally, PW's "Management Team" organization chart shows that 11 partners have been assigned to the HomeFed project.

- **Allegation 2: 95 percent of the work is performed by temporaries.** The PW copying activities were divided into four functional areas: (1) preparation, (2) copy center, (3) assembly, and (4) quality control. There were several work teams within each functional area, and each team was staffed entirely by temporaries. In addition, each team had a supervisor, who was also a temporary. There was one general supervisor for each functional area, to which the team supervisors reported. These general supervisors were PW employees. Each copy center also had PW employees who acted as general managers. During peak copying activity in June and July 1992, PW operated three 8-hour shifts at two main copy centers and five "express" copy centers. For each shift, the staff at each main copy center consisted of 236 team members (temporaries), 30 supervisors (temporaries), and 12 general supervisors and managers (PW employees). The staff at each express copy center consisted of 24 team members (temporaries), 3

supervisors (temporaries), and 3 general managers (PW employees). The ratio of temporary staff to PW staff averaged over 19 to 1.

The primary responsibility of PW employees was to ensure the physical security of the original files throughout the copying operations. DOJ procedures require that any transfer of possession of the original files be documented on a log and inventory records from the sending area be verified before the recipient acknowledges the transfer of possession. The logging and inventorying were performed by a PW employee (the general supervisor). All other functions were performed by the temporaries.

- **Allegation 3: PW is submitting unnecessary and excessive charges for lodging, car rental, and airline travel.** As required by the task order, PW submits expense invoices to RTC semi-monthly. PW developed *Expense Reporting Guidelines* for work performed under the contract. We reviewed the guidelines and found that they mirror RTC travel expense reporting and reimbursement policy. Also, the Project Manager told us that PW has contracted with area hotels for rates that are comparable to government rates, PW employees are allowed to fly home every third weekend, and rental cars are used at a ratio of one car for every three employees. Since contract inception, travel-related expenses have averaged over $680,000 per month. Through July 31, 1992, total travel-related expenses billed to RTC exceeded $1.7 million.

- **Allegation 4: PW over-hired temporaries.** PW has not maintained any productivity statistics that can be used to determine whether the project has ever been overstaffed. PW does maintain logs that document the movement of files through the copying activities, and logs of the meters on the copy machines. The PW Issue Identification and Resolution Specialist indicated that PW staff and temporaries had experienced some downtime. However, he attributed this downtime to RTC making changes in the asset disposition and marketing plan that resulted in copying activities being suspended.

- **Allegation 5: PW had no efficient means of tracking billable hours.** Each PW employee, contracted professional, and temporary maintains a time report of hours worked each semi-monthly pay period. A PW manager and/or partner review and approve the time reports, which are then used to prepare the semi-monthly billings. Our review of billings for PW employees and contracted professionals for pay periods ending May 31, 1992, through July 31, 1992, showed 230 instances in which PW billed RTC for individuals who reported in excess of 120 hours for one semi-monthly pay period. One of the PW Project partners billed 274 hours, 150 hours, 155 hours, and 152 hours, respectively, for the first four semi-monthly pay periods. In total, for the 2-month period, PW billed RTC $116,960 for this Project partner.

Of further note, although RTC had an on-site oversight manager initially assigned to HomeFed to monitor the contract, this person resigned during the early months of the contract and was not replaced until about 4 weeks later. As a result, RTC had no on-site manager overseeing the Homefed project during the early periods of the contract during which PW billed RTC for the majority of the copying activities.

In addition, on October 15, 1992, we reviewed RTC's Contracting Activity Reporting System (CARS). All contracts and task orders with estimated fees over $1,000 are to be recorded in CARS. Nonetheless, neither this task order nor most of the related HomeFed due diligence and asset valuation task orders were recorded in CARS as of the date of our review. Because CARS is used for various management reports and reports to the Congress, such omissions are detrimental to the integrity of the information reported.

PROPOSED ACTION

The primary purpose of this memorandum is to apprise you of our concerns about the apparent excessiveness of this contract. Most of the estimated total cost of the contract has already been incurred. Therefore, there is little RTC management can do at this point to reduce costs. We are continuing with our review to determine whether any charges can be recouped and whether any fraud, such as false claims, is involved with this contract. We will keep you apprised of our findings as we progress with our audit. If any charges appear unreasonable, unsupported, or fraudulent, we will make recommendations to RTC to recover such funds. Further, based on our work, we will make other recommendations to help prevent such open-ended contracts from being awarded in the future.

DESCRIPTION OF PW TASKS

Due diligence interface: Act as interface between the due diligence contractors (DDC), Office of Thrift Supervision representatives, and RTC representatives both on-site and in the national and regional offices; act as a clearinghouse for all DDC requests of HomeFed personnel; and allocate resources and establish priorities for requests of various DDCs.

Systems development: Develop an automated system to monitor and control the movement of original, shadow, and fiche copies of each loan file and for the movement of loans between asset pools; and develop a bar coding system to report copying progress and the location of copies.

Document management: Copy loan and other asset files (one "shadow" copy for the DDC's, and one "fiche" copy for microfilming); copy investor files (the number of copies depends on the asset pool, but activity for this portion of the task has been minimal to date); microfilm "fiche" copies.

Project management and administration: Prepare an overall engagement schedule and monitor progress, record and distribute minutes of daily DDC meetings, communicate overall plan and changes, and prepare weekly progress reports.

War room: "War rooms" are secured areas where copies of the investor files are stored. Potential bidders are admitted and allowed to review the files. PW's related tasks are to organize and set up war rooms, prepare and maintain schedules of DDC personnel required to staff war rooms, receive bidder Confidentiality and Review Agreements and refundable deposits, schedule bidder war room visits, and maintain a library check out system and control of documents.

Due diligence quality control: Perform quality control reviews of individual asset due diligence findings and derived investment value (DIV) calculations.

PW out of pocket: Travel expenses.

OFFICE OF
INSPECTOR
GENERAL

RESOLUTION TRUST
CORPORATION

DATE: October 28, 1992

MEMORANDUM TO: Nicholas F. Brady, Chairman
Thrift Depositor Protection Oversight Board

FROM: John J. Adair, Inspector General

SUBJECT: Office of Inspector General (OIG) Activities Report

Since the update we provided on September 21 for the October Oversight Board meeting, we continue to be involved in various audit and investigation activities. Details on our fiscal year 1993 appropriation and recently submitted fiscal year 1994 budget request are also discussed in this report. Our semiannual report to the Congress, for the period April 1 through September 30, 1992, will be delivered to you by the end of this month.

AUDIT ACTIVITIES

Based on an allegation received through our Fraud Hotline, we began an audit of a contract RTC awarded to Price Waterhouse for due diligence coordination activities at HomeFed Bank, San Diego, California. Although we are in the preliminary stages of the audit, a number of issues identified bear a distinct similarity to the problems we reported relative to the "Western Storm" project.

In particular, we believe that the rates being charged under the contract are excessive given the nature of the services being provided. The contractor's principal work under the contract has been to photocopy loan and asset files at HomeFed. The contractor has projected the total cost of the contract to be $25.2 million through January 1993, $14 million of which represents labor charges for photocopying and microfilming. Through July 31, 1992, the contractor had billed RTC $14.5 million, of which $9.5 million are for these charges. Price Waterhouse is charging RTC $59 per hour for staff, $79 per hour for seniors, $134 per hour for some and $160 per hour for other partners, and $20 per hour (average) for temporaries.

As with the Western Storm project, we have noted that (1) the contract has no limits on the total amount RTC can be charged, (2) work and billings have not been adequately monitored, (3) the contract was awarded under a task order

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agreement that was not intended for this type of work, and (4) the contract and most of the related due diligence and asset valuation contracts awarded for HomeFed-related work have not been recorded in RTC's Contracting Activities Reporting System. The manner in which RTC solicited proposals for and awarded this contract are also of concern to us.

Because most of the estimated total cost of the contract has already been incurred; RTC management may be unable to mitigate these costs. We are continuing our audit in this area to determine whether any charges can be recouped and whether there is any fraud involved with the contract.

Also during the period, we initiated 11 other audits to examine consolidated receiverships, Standard Asset Management and Disposition Agreement (SAMDA) pass-through costs and operating accounts, legal fees, contract billings, auction management, and asset control during office closings. We have 83 on-going assignments. Further, we contracted for 79 audits that independent public accountants will conduct under our direction and supervision. These audits will focus on law firms, loan servicers, and property managers.

We issued seven audit reports during this period on various RTC operations. These reports addressed RTC's (1) legal fees paid to Cravath, Swaine and Moore, (2) Asset Manager System, (3) management and operation of New MeraBank Texas, (4) noncompetitive contract award process, (5) loan concessions to borrowers, (6) advertisement and public relations services, and (7) receivership operations. Four draft reports were provided to RTC management for comment and four additional drafts were provided to RTC management for discussion purposes.

INVESTIGATION ACTIVITIES

As a result of an OIG investigation, a Florida couple and a man were indicted by a Federal Grand Jury in Tampa, Florida on September 30. The 20-count indictment charged them with conspiracy, misapplication of funds, illegal financial transactions, impeding the lawful functions of the RTC, and making false statements to the RTC. As owners of a property management company and another company which provided goods and services to properties they managed, the defendants allegedly devised schemes to fraudulently bill the RTC for over $100,000 in goods and services which they did not provide.

In addition, the following significant actions have been taken as a result of our ongoing investigations:

* A Pennsylvania businessman was sentenced on September 9 to 6 months confinement, 5 years probation, and was fined $20,000 after pleading guilty

to paying a $6,000 bribe to a loan officer at Bell Federal Savings Bank, Upper Darby, Pennsylvania. The institution was under RTC conservatorship at the time. The businessman gave the bribe to obtain a reduction in his obligation on a $119,000 outstanding line of credit held with the institution.

* On September 22, a corporation president pleaded that his company was guilty of providing a false statement to RTC. In June 1989, the corporation defaulted on a $535,000 commercial development loan from Habersham Federal Savings & Loan Association, Cornelia, Georgia, which was placed in conservatorship that month. Following the default, the corporation received a $200,000 payment from a tenant to break a lease; however, the company president falsely stated to RTC officials that the payment was not made.

* On October 6, two former tellers of the Nogales, Arizona branch of the Security Savings and Loan Association, Scottsdale, Arizona, were sentenced to 10 months in jail and 5 years probation following their release and ordered to make restitution of $85,000 each after pleading guilty to embezzlement charges. The two were charged with obtaining fraudulent loans on customers' certificates of deposit and forging withdrawals from accounts.

* As a result of our ongoing investigation of fraudulent real estate transactions in the Boston area, two individuals were sentenced on October 9. The two real estate speculators were sentenced to 17 months in jail and were ordered to make restitution of $250,000 each. The two will remain on probation for 36 months following their release from jail. To date, 13 individuals have been charged in this joint investigation with the FBI and 7 have pleaded guilty to the charges.

* On October 21, a former teller at Remington Federal Savings Association Elgin, Texas, was sentenced to 15 months in prison and 5 years probation after pleading guilty to embezzling $117,500 from the institution. In addition, she was ordered to make full restitution and was fined $10,000 for her activities.

* A former temporary employee of an RTC contractor was sentenced in a local Texas court to 8 years in jail after he admitted stealing Kruggerands, U.S. silver dollars, proof sets of U.S. coins, and a semi-automatic pistol from a file room in RTC's Houston office. The property, obtained as loan collateral by several institutions, was valued at $28,600.

OIG FUNDING

Our fiscal year 1993 appropriation was sent to the President on September 25, 1992, and was signed on October 6, 1992. The bill appropriated funding of

$33,510,000, a decrease of $9,544,000 from our fiscal year 1993 request. This level of funding provides us with a staffing level of 330 employees.

On October 20, 1992, we submitted our fiscal year 1994 budget submission to the Office of Management and Budget. We are requesting $39.7 million, which will fully fund staffing for 330 positions. Our request is an increase of $6.2 million over our fiscal year 1993 appropriation.

cc: Mr. Casey
Mr. Hove
Mr. Monroe
Mr. Bovenzi

2. Update on Price Waterhouse Contract (Home Fed)

Executive Committee approved, on April 7, 1992, a request for $4 million to fund Asset Valuation Review activities using a Basic Ordering Agreement. (130 cases at $30,000 each = about $4 million)

The first 3 task orders under this BOA were issued May 15, 1992, for a variety of work at Home Fed, to Price Waterhouse, for due diligence coordination, to Grant Thornton for institution monitoring, and Kenneth Leventhal for information systems.

Actual cost incurred as of November 1, 1992 is $16.9 million.

Projected cost of the 3 task orders is $32 million.

As of July 31, 1992, for Price Waterhouse's BOA:

PW had produced 21.1 million copies of documents

Total billings -- $14,538,083, including travel costs

Average cost per copy $.69, including travel costs

Average cost, not including travel is $.46 per copy

OFFICE OF
INSPECTOR
GENERAL

RESOLUTION TRUST
CORPORATION

November 19, 1992

Mr. Peter H. Monroe
President
Thrift Depositor Protection
Oversight Board

Dear Peter:

We are providing information on Office of Inspector General (OIG) activities for inclusion in the backup book for the upcoming December 1, 1992, Thrift Depositor Protection Oversight Board meeting.

Fiscal Year 1993 Audit Plan

We provided copies of the final draft of our *Fiscal Year 1993 Audit Plan* to the Oversight Board for its review on September 28, 1992. We expect to issue the final plan before the December 1, 1992, meeting. Upon its issuance, we will provide you copies for circulation to the Board.

Semiannual Report to the Congress

Our *Semiannual Report to the Congress* for the period April 1, 1992 - September 30, 1992, was provided to Mr. Brady and Mr. Casey on October 30, 1992. The report is now with the printer for final production and printing. Printed copies of the report will be provided to Mr. Brady and Mr. Casey toward the end of November for transmittal to the Congress.

Price Waterhouse HomeFed Due Diligence Contract

In our OIG Activities Report sent to Mr. Brady on October 28, 1992, we discussed our audit of a contract RTC awarded to Price Waterhouse for due diligence coordination activities at HomeFed Bank, San Diego, California. Our audit of this contract and issues related to its award and administration is ongoing. We are continuing our audit in this area to determine whether the contract was appropriately awarded, the contractor's charges are reasonable, and RTC's oversight of the work is adequate. In doing so, we will determine whether any wrongdoing has occurred and whether any funds can be recovered.

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Status of Ongoing Board Requested Audits/Reviews

We continue to examine allegations regarding the conduct of professional liability litigation, hiring practices of the Legal Division, and the realignment of field legal offices. To date, our review of these issues has involved interviewing over 100 individuals and examining professional liability cases at about 20 institutions.

RTC Management Responses to IG Recommendations

Pursuant to your request, we are again providing information on OIG recommendations that RTC has not fully responded to or implemented since our inception. As of November 19, 1992, there are 28 OIG recommendations that have been open for at least 60 days without a management decision, 16 of which have been open for over 180 days. Pages 6 through 20 of this report discuss in more detail the status of these open OIG recommendations.

Reports Provided to RTC Management

We have issued eight final reports since the October Board meeting. Copies of these audit reports have been provided upon issuance to the Oversight Board staff for distribution to Board members. Summaries of these final reports are provided in this report as indicated.

-- RTC's Management and Operation of Trustbank Federal Savings Bank - Page 22

-- Receivership Operations at First Savings and Loan, Waco, Texas - Page 24

-- Advertisement and Public Relations Services in the Southwest Regional Sales Center - Page 26

-- Legal Fees Paid to Cravath, Swaine, & Moore - Page 28

-- Development and Implementation of the Asset Manager System - Page 30

-- RTC's Loan Concessions to Borrowers - Page 32

-- Award Process for Noncompetitive Contracts in the Southwest Region - Page 34

-- RTC's Management and Operation of New MeraBank, Texas, FSB - Page 36

Five draft audit reports have been issued to RTC management for comment and are in various stages of completion. Summaries of these draft reports are

contained in this report as indicated, and copies of the draft reports are available upon request.

-- Development and Implementation of the Contracting Activity Reporting System and Related Systems - Page 39

-- Management of Mt. Holly/Elk Meadows Resort - Page 41

-- Oversight of Project Funding and Revenues - Page 42

-- Receivership Operations at the Kansas City Office and Consolidated Office - Page 43

-- Interim Service Agreement Expenditures - Page 45

We are also providing a list of our ongoing audits, per the Oversight Board's request, on pages 47 through 49 of this report.

Significant Investigative Activity

Our investigations continue to generate indictments, convictions, arrests and/or media attention. The cases below represent investigative activity since our prior report.

-- Two San Antonio Men Indicted for Bribing RTC Official - Page 51

-- Four Individuals Sentenced in Boston Land Flip Conspiracy and Ordered to Make Restitution of $600,000 - Page 54

-- Two Tellers Sentenced for Embezzling $170,000 - Page 60

-- Former Teller Sentenced for Stealing $117,500 from Elgin, Texas, Conservatorship - Page 63

-- Three Individuals Indicted in Scheme to Fraudulently Bill RTC for Over $100,000 - Page 66

-- Atlanta Corporation Convicted for Filing False Statement to RTC - Page 69

-- Former RTC Contractor Employee Sentenced For Stealing RTC Property - Page 71

-- Former RTC Property Manager Arrested for Withholding Rent Owed to RTC - Page 72

-- Funds Recovered from Contractor Who Engaged in Kickback Scheme - Page 73

-- Former RTC Temporary Employee Pleads Guilty to Bank and Welfare Fraud - Page 74

If the Directors would like additional information on the material we are providing, please let me know.

Sincerely,

John J. Adair
Inspector General

MEETING OF NOVEMBER 30, 1992

2. **OVERSIGHT BOARD CONCERNS REGARDING AUDIT FOLLOWUP**

-- REDUCED NUMBER OF OPEN RECOMMENDATIONS FROM 38 TO 28 SINCE LAST OVERSIGHT BOARD MEETING

-- STILL WORKING ON A FORMAL SYSTEM AND RESOLUTION

5. **GLENN AND ROTH LETTER TO CLINTON REGARDING INSPECTORS GENERAL**

-- COPY ATTACHED

-- REQUESTS NO WHOLESALE FIRING OF 26 PRESIDENTIALLY APPOINTED INSPECTORS GENERAL

6. UPDATE ON HOMEFED AND PRICE WATERHOUSE CONTRACT

-- BILLINGS THROUGH 7-31-92 ARE DISCUSSED BELOW

-- DATA INDICATES PRICE PER XEROX COPY IS $1.05 PER PAGE

-- PRODUCED 9,225,505 PAGES AT A COST OF $9,676,323

-- 286,347 HOURS BILLED WHICH EQUATES TO 32 PAGES PER HOUR

-- TOTAL PRICE WATERHOUSE BILLINGS TO END OF JULY WERE $14,538,083, WHICH EQUATES TO $1.59 PER PAGE FOR 9.2 MILLION PAGES

2. PRICE WATERHOUSE CONTRACT INVOLVING HOMEFED AND COPYING COSTS

-- WE ARE DRAFTING A MEMO TO JOHN TIERNEY ASKING FOR A RENEGOTIATION OF THE CONTRACT WHEN THE CURRENT PERFORMANCE PERIOD ENDS, DECEMBER 31, 1992.

-- THE CONTRACT IS EXPECTED TO CONTINUE THROUGH MARCH 1993, AND IN VIEW OF WHAT WE BELIEVE ARE EXCESSIVE COSTS, A RENEGOTIATION OF THE EXISTING TASK ORDER, OR A NEW TASK ORDER SHOULD BE ISSUED THAT PROVIDES FOR LOWER MARK UP RATES, AND A NOT-TO-EXCEED AMOUNT.

-- MARK UP ON PRICE WATERHOUSE BILLINGS FOR TEMPORARY EMPLOYEES DOING THE COPYING RANGES FROM 74% FOR ARROYO EMPLOYEES TO 139% FOR REMEDY EMPLOYEES.

-- COPYING COSTS ARE RUNNING ABOUT $1.00 PER PAGE, $1.59 IF TRAVEL COSTS ARE INCLUDED.

3. WESTERN STORM INVESTIGATIVE REPORT -- DISPOSITION REPORT IS REQUIRED FROM PRESIDENT AND CEO.

-- REPORT SUBMITTED IN SEPTEMBER

-- 60 DAY UPDATE REQUESTED

MEETING OF DECEMBER 21, 1992

I. **TRANSITION TEAM MEETING**

-- TRANSITION BOOK

-- DISCUSSION ISSUES

FINAL COST OF THE CLEANUP

SIZE OF THE OFFICE OF INSPECTOR GENERAL

COVERAGE OF RTC PROGRAMS (ALSO ASKED OF GAO)

MAJOR AUDIT AREAS

HOW MUCH CAN BE SAVED THROUGH ECONOMIES AND EFFICIENCIES?

RELATIONSHIP TO PRESIDENT AND CEO

II. **THEFT OF MONEY ORDERS**

-- 6,750 MONEY ORDERS WITH A POTENTIAL LOSS OF $6,750,000 HAVE BEEN STOLEN.

-- THEFT OCCURRED DURING THE CLOSING PROCESS OF REPUBLIC FEDERAL SAVINGS BANK, ON NOVEMBER 23, 1992. (CHICAGO CONSOLIDATED OFFICE)

-- STOLEN MONEY ORDERS SHOWING UP IN CALIFORNIA, NEVADA, CHICAGO, AND BATON ROUGE.

III. **INDICTMENT OF MAN WHO BILLED RTC FOR FICTITIOUS SALES OF PAPER AND BUSINESS FORMS AMOUNTING TO $192,000.**

-- ONLY ONE BILL, FOR ABOUT $8,000 WAS PAID BY RTC.

-- FACES 12 COUNT INDICTMENT, WITH MAXIMUM OF 30 YEARS IMPRISONMENT AND $1 MILLION FINE FOR EACH COUNT.

V. HOMEFED AND PRICE WATERHOUSE CONTRACT

-- SENT TODAY A MEMO TO JOHN TIERNEY REGARDING REVISING CONTRACT WITH PRICE WATERHOUSE.

-- COPY ATTACHED.

OFFICE OF INSPECTOR GENERAL

RESOLUTION TRUST CORPORATION

Office of Audit

DATE: December 21, 1992

MEMORANDUM TO: John Tierney
Director, Office of Contracts

Sharon E Vander Vennet

FROM: Sharon E. Vander Vennet
Assistant Inspector General for Audit

SUBJECT: Task Order WRO-075, HomeFed Federal Savings Bank (HomeFed)

As you are aware, my office is currently conducting an audit of the subject task order. Although the audit is still in process, we believe one issue requires immediate attention. Specifically, we believe that it would be in the Resolution Trust Corporation's (RTC) best interests for the Office of Contracts to issue a new task order or amend the current one to incorporate a specific Statement of Work, period of performance, a not-to-exceed dollar amount for the remaining labor and travel costs, and reduced hourly rates for temporary agency employees and professional contractors.

As you have previously discussed with my staff, Task Order WRO-075 specifies that Price Waterhouse's (PW) performance period at HomeFed "may extend as long as the end of this calendar year." However, due in part to changes in RTC's asset disposition plan for HomeFed, PW is currently projecting work through March 1993. Although the current task order could just be extended to allow for these additional 3 months, we recommend that the Office of Contracts replace the existing task order or amend the current one to better protect RTC's interests.

Task Order WRO-075 does not include a detailed Statement of Work or a schedule of milestones or deliverables. Further, the task order does not include a not-to-exceed dollar amount for labor and expenses--it simply states that RTC agrees with the hourly rates specified in PW's proposal. The pricing in PW's proposal includes six labor classifications, ranging from clerical at $17 per hour to partners at $160 per hour. PW's proposal did not estimate either the level of effort (number of hours by labor category) required to perform the task or a completion date. According to the RTC *Contract Policies and Procedures*

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Manual (CPPM), elements of a task order proposal will normally include a cost proposal, which will either be a fixed-price offer or a time-and-materials offer with a ceiling amount, and a schedule of performance for completing the task. The CPPM further indicates that the task order shall contain pricing information, a detailed Statement of Work, and a period of performance.

Before issuing a new task order or amending the current one, we also recommend that you negotiate lower hourly rates with PW for temporary agency employees and professional contractors. Our analysis of the costs paid by PW to the firms supplying the temporary and professional employees compared to the billings PW submitted to RTC for these employees shows that PW has realized excessive mark-ups on labor costs.

For example, for the period from June 1 through July 31, 1992, the temporary agency (Remedy) billed PW $1,791,060 in straight time and overtime for clerical employees and clerical supervisors. For the same period, PW billed RTC $4,274,840 at the negotiated hourly rates for the temporary employees, realizing a mark-up of $2,483,780 or 138 precent. For the pay period ending September 30, 1992, PW's mark-up had increased to 174 percent for temporary employees.

Similarly, for the period from contract inception through July 31, 1992, the subcontractor for professionals (Arroyo and Associates) billed PW $355,688. For the same period, PW billed RTC $619,802 for the subcontracted professionals, realizing a mark-up of $264,114 or 74 precent. For the pay period ending Septemer 30, 1992, the mark-up had increased to 132 percent.

In addition to the calculations of overall mark-ups on cost discussed above, we analyzed the mark-ups by PW per week on judgmental samples of individual clerical supervisors and subcontracted professionals. We reviewed a 2-week pay period for a sample of 24 clerical supervisors and found that PW billed RTC an average of $2,868 per week per clerical supervisor but paid only $1,016 per week, resulting in a mark-up of $1,852 per clerical supervisor per week, or 182 percent. (See Attachment I for details.) Our analysis of billings for a sample of 15 subcontracted professionals showed that PW billed RTC an average of $3,796 per week per subcontracted professional but paid only $1,540 per week, resulting in a mark-up of $2,256 per subcontracted professional per week, or 146 percent. Included in our analysis is the Billing Manager PW hired through Arroyo at a rate of $1,505 per week. PW billed the Billing Manager to RTC at a rate of $6,700 per week, a mark-up of $5,195 per week, or 345 percent. (See Attachment II for details.)

To determine whether PW's high mark-ups on temporary and subcontracted employees are consistent with industry standards, we interviewed management

ups these firms use when billing clients. Additionally, we spoke with a contracted attorney at HomeFed regarding the mark-up she uses when billing RTC Legal for her temporary employees who perform tasks similar to those performed by the PW temporaries. These representatives told us that the mark-up on temporary employees is generally within the range of 25 to 45 percent. However, we should note that PW's overall risk on this contract is minimal--PW incurs no additional overhead or personnel costs as a result of hiring these employees, most employees are not using PW facilities or equipment, PW is not penalized for late delivery, and PW can bill RTC for correcting mistakes or errors. Accordingly, we believe that a mark-up rate even less than these ranges would have been appropriate. As an example, under Defense Federal Acquisition Regulations, a reasonable mark-up rate would be 2 percent based on the low level of risk associated with this contract.

Although the rates for the remainder of the job could be negotiated at a level not to exceed a 25 to 45 percent mark-up, we note that this level ignores the excessive mark-ups PW has earned to date. Even if no mark-up was allowed for the remainder of the job, the overall mark-up for the entire term of the task order would exceed 25 percent. Accordingly, we strongly encourage you to allow PW no mark-up on temporary employees and subcontract professionals during the period of performance from January 1, 1993, through March 31, 1993.

In summary, rather than just extending the current task order, we recommend that the Office of Contracts issue a new task order or amend the current one to include (1) a detailed Statement of Work, a specific period of performance ending March 31, 1993, and a not-to-exceed total billing amount and (2) terms stating that RTC's payments to PW for temporary agency employees and for subcontracted professionals be equal to the amount billed to PW.

If you have any questions, please feel free call me at 703-908-7813 or Kurt Hyde, Deputy Assistant Inspector General for Audit Operations, at 703-908-7814. We would be happy to further discuss this matter with you.

cc: Vice President, Division of Administration and Corporate Relations
Assistant Vice President, Department of Contracts, Oversight and Evaluation
Senior Vice President and Chief Financial Officer, Division of Institution Operations and Sales

bcc: Kurt Hyde
Shirley Ward
Sandra Lock
Jack Adair
Steve Switzer

ATTACHMENT I

ATTACHMENT I

LABOR CHARGE MATRIX, TEMPORARY AGENCY EMPLOYEES

TEMPORARY	TOTAL HOURS	REMEDY WEIGHTED BILL RATE	PW'S BILLING RATE	REMEDY'S BILLING	PW'S BILLING	PW'S MARKUP DIFF	MARKUP %
Temporary 1	165.00	$14.27	$39.00	$2,354.22	$6,435	$4,080.78	173.34%
Temporary 2	122.50	$12.30	$39.00	$1,507.28	$4,778	$3,270.22	216.96%
Temporary 3	147.50	$14.93	$39.00	$2,202.85	$5,753	$3,549.65	161.14%
Temporary 4	109.00	$12.31	$39.00	$1,341.54	$4,251	$2,909.46	216.87%
Temporary 5	155.25	$13.08	$39.00	$2,030.58	$6,055	$4,024.17	198.18%
Temporary 6	174.25	$15.65	$39.00	$2,727.45	$6,796	$4,068.30	149.16%
Temporary 7	131.50	$9.88	$39.00	$1,299.48	$5,129	$3,829.02	294.66%
Temporary 8	124.00	$9.80	$39.00	$1,215.00	$4,836	$3,621.00	298.02%
Temporary 9	173.00	$15.62	$39.00	$2,702.01	$6,747	$4,044.99	149.70%
Temporary 10	178.00	$15.94	$39.00	$2,837.07	$6,942	$4,104.93	144.69%
Temporary 11	155.75	$13.54	$39.00	$2,108.88	$6,074	$3,965.37	188.03%
Temporary 12	141.75	$16.12	$39.00	$2,285.39	$5,528	$3,242.86	141.90%
Temporary 13	161.00	$15.14	$39.00	$2,437.74	$6,279	$3,841.26	157.57%
Temporary 14	169.25	$13.72	$39.00	$2,322.90	$6,601	$4,277.85	184.16%
Temporary 15	167.00	$13.68	$39.00	$2,291.58	$6,513	$4,221.42	184.21%
Temporary 16	126.75	$15.93	$39.00	$2,019.93	$4,943	$2,923.32	144.72%
Temporary 17	120.00	$13.89	$39.00	$1,667.14	$4,680	$3,012.86	180.72%
Temporary 18	125.00	$12.86	$39.00	$1,607.76	$4,875	$3,267.24	203.22%
Temporary 19	127.75	$14.49	$39.00	$1,850.82	$4,982	$3,131.43	169.19%
Temporary 20	169.00	$16.00	$39.00	$2,703.96	$6,591	$3,887.04	143.75%
Temporary 21	156.25	$12.47	$39.00	$1,948.56	$6,094	$4,145.19	212.73%
Temporary 22	130.00	$12.61	$39.00	$1,639.08	$5,070	$3,430.92	209.32%
Temporary 23	144.00	$11.20	$39.00	$1,612.27	$5,616	$4,003.73	248.33%
Temporary 24	156.25	$13.14	$39.00	$2,053.71	$6,094	$4,040.04	196.72%
TOTALS FOR 2-WEEK PAY PERIOD				$48,767.20	$137,660	$88,893.05	182.28%
AVERAGE COST PER WEEK PER EMPLOYEE				$1,016	$2,868	$1,852	182%

Note: Each record represents billings for one 2-week pay period.

Source: Analysis of Remedy and Price Waterhouse billings.

ATTACHMENT II

ATTACHMENT II

LABOR CHARGE MATRIX, PROFESSIONAL CONTRACTORS

PROFESSIONALS	TOTAL HOURS	ARROYO WEIGHTED BILL RATE	PW'S BILLING RATE	ARROYO BILLING	PW'S BILLING	PW'S MARKUP DIFF	MARKUP %
Professional 1	25	$21.73	$59.00	$543.20	$1,475.00	$931.80	171.54%
Professional 2	81	$25.58	$59.00	$2,072.25	$4,779.00	$2,706.75	130.62%
Professional 3	97	$22.29	$59.00	$2,162.40	$5,723.00	$3,560.60	164.66%
Professional 4	87	$25.49	$59.00	$2,217.75	$5,133.00	$2,915.25	131.45%
Professional 5	26	$38.23	$79.00	$994.00	$2,054.00	$1,060.00	106.64%
Professional 6	113	$18.29	$39.00	$2,067.20	$4,407.00	$2,339.80	113.19%
Professional 7	108	$54.63	$134.00	$5,900.00	$14,472.00	$8,572.00	145.29%
Professional 8	104	$21.81	$59.00	$2,268.70	$6,136.00	$3,867.30	170.46%
Professional 9	118	$26.11	$59.00	$3,081.20	$6,962.00	$3,880.80	125.95%
Professional 10	103	$55.58	$134.00	$5,725.00	$13,802.00	$8,077.00	141.08%
Professional 11	96	$29.58	$79.00	$2,840.00	$7,584.00	$4,744.00	167.04%
Professional 12	90	$28.87	$59.00	$2,598.60	$5,310.00	$2,711.40	104.34%
Professional 13	121	$66.89	$134.00	$8,093.75	$16,214.00	$8,120.25	100.33%
Professional 14	100	$30.10	$134.00	$3,010.40	$13,400.00	$10,389.60	345.12%
Professional 15	109	$24.15	$59.00	$2,632.00	$6,431.00	$3,799.00	144.34%
TOTALS FOR 2-WEEK PAY PERIOD				$46,206.45	$113,882.00	$67,675.55	146.46%
AVERAGE COST PER WEEK PER EMPLOYEE				$1,540	$3,796	$2,256	146%

Note: Each record represents billings for one 2-week pay period.

Source: Analysis of Arroyo and Price Waterhouse billings.

OFFICE OF INSPECTOR GENERAL

RESOLUTION TRUST CORPORATION

DATE: January 4, 1993

MEMORANDUM TO: Nicholas F. Brady, Chairman
Thrift Depositor Protection Oversight Board

FROM: John J. Adair
Inspector General

SUBJECT: Office of Inspector General Activities Report

We are providing information on audit and investigation activities occurring since November 19, 1992, when we submitted information for the December 1992 Oversight Board meeting.

AUDIT ACTIVITIES

We continue to audit RTC's contract with Price Waterhouse (PW) for due diligence coordination activities at HomeFed Federal Savings Bank (Homefed) in San Diego, California. The current contract specifies that PW's work at HomeFed "may extend as long as the end of this calendar year." However, due in part to changes in RTC's disposition plan for HomeFed, PW is currently projecting work through March 1993.

We issued a memorandum to RTC's Director, Office of Contracts, on December 21, 1992, recommending that RTC's Office of Contracts issue a new contract or amend the current contract to better protect RTC's interests by, among other things, reducing hourly rates for temporary agency employees and professional contractors used by PW.

Our analysis has shown that PW has realized excessive mark-ups on labor costs for temporary and professional employees. For example, for the period from June 1 through July 31, 1992, PW charged RTC $2,483,780 or 138 percent more than it was billed for temporary employees. Similarly, from contract inception through July 31, 1992, the subcontractor for professionals billed PW $355,688. For the same period, PW billed RTC $619,802, realizing a mark-up of $264,114 or 74 percent. Included in our analysis was the Billing Manager PW hired

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through the subcontractor at a rate of $1,505 per week. PW billed this individual to RTC at a rate of $6,700 per week, a mark-up of $5,195 per week, or 345 percent.

Because of the excessive mark-up realized by PW since the inception of the contract, we recommended in our December 21, 1992, memorandum that RTC allow PW no mark-up on temporary employees and subcontract professionals during the period from January 1, 1993, through March 31, 1993.

We will continue to review activities in this area to identify any other potential cost recoveries and to determine whether there is any fraud involved with the contract.

Since November 19, 1992, we have also initiated four audits to examine RTC's accelerated marketing and sales activities, the RTC Legal Information System (RLIS), pending claim reserves, and the planning and cost-effectiveness of RTC's downsizing. In total, we have 79 on-going assignments. Further, we have 27 contracted audits in process under our direction and supervision. These audits are reviewing legal firms, loan servicers, and property managers.

We issued five audit reports during this period on various RTC operations. These reports addressed (1) Sunbelt Savings' interim service agreement expenditures, (2) the Contracting Activity Reporting System (CARS) and related systems, (3) RTC's management of the Mt. Holly/Elk Meadows Ski Resort, (4) receivership operations at the Kansas City Office and Minneapolis Consolidated Office and (5) the Kansas City Office's oversight of project funding and revenues. Four draft reports were provided to RTC management for comment and nine draft reports were provided to RTC management for discussion purposes.

INVESTIGATION ACTIVITIES

Our investigations continue to generate arrests, indictments, and convictions. Since November 19, 1992, our investigations have resulted in over $700,000 in restitutions to RTC, $60,000 in fines, and several RTC employee removals or resignations. The following represent some of the significant actions which have resulted from our investigations during this reporting period.

- On November 24, 1992, four individuals were sentenced for their participation in a scheme to defraud the former First Federal Savings Association of Raleigh, North Carolina, which was resolved by RTC in March 1992. The individuals had been found guilty in August 1992 on bank fraud and conspiracy charges following an OIG investigation.

Our investigation found that two First Federal borrowers, a husband and wife, conspired with two of their customers, who were also convicted, to divert payments from First Federal. The husband in the case was sentenced to 3 and one-half years imprisonment and his wife was given a 2 and one-half year sentence. One customer was sentenced to 21 months in prison and the other was sentenced to 5 months in prison to be followed by 5 months of community confinement. The four individuals and a New York company which was also convicted in the case were ordered to make combined restitution to RTC of $699,000.

- On November 25, 1992, an Atlanta corporation was fined $60,000 after earlier pleading guilty in federal court to filing a false statement with RTC. The corporate fine resulted from an OIG investigation which disclosed that the corporation's president made false statements to RTC officials after the corporation defaulted on a $535,000 commercial development loan from Habersham Federal Savings and Loan Association, Cornelia, Georgia. Following the default, the corporation received a $200,000 payment from a tenant to break the lease, but the corporate president falsely reported to RTC that no payment was received.

- On December 14, 1992, a temporary restraining order was issued by a U.S. District Court Judge in the Middle District of Florida freezing almost $700,000 in assets which had been placed in a Florida trust. The restraining order was issued in connection with an OIG investigation into allegations that an individual responsible for a $2 million defaulted loan from an RTC institution submitted false financial statements to RTC and attempted to conceal his assets during negotiations with RTC.

- In December 1992, as a result of a joint OIG/FBI investigation, an individual who operated paper and business form brokerages in several states was indicted by a federal grand jury and subsequently arrested on charges of mail and wire fraud. The subject allegedly submitted over $192,000 in invoices for copy paper and computer paper which he falsely claimed to have provided to eight separate financial institutions under the control of RTC. However, the paper products were never ordered or delivered to the RTC. The subject allegedly contacted the RTC, RTC conservatorships or receiverships, and Congressional offices, by telephone or by mail, in an effort to generate payment of his claims.

- An Illinois man pleaded guilty to theft of government property as a result of a joint OIG/FBI investigation. Investigation found that the subject, while serving as president of an investment brokerage subsidiary of Olympic Federal Savings Association, Berwyn, Illinois, misdirected $190,000 in

investments away from Olympic and brokered them through a company which he owned.

- An RTC auctioneer was suspended from doing further business with RTC based on information developed to date in an ongoing joint investigation with the FDIC OIG. The auctioneer allegedly under-reported at least $25,000 in proceeds from auctions he held on behalf of RTC.

- A joint OIG/FBI investigation is being made of the alleged theft of approximately 6,750 American Express money orders which have been found to be missing from Republic Federal Savings Bank, Flossmoor, Illinois. The money orders, valued at over $6 million, were allegedly stolen while RTC was in the process of closing Republic Federal. A Louisiana woman was arrested in December 1992 by the East Baton Rouge Sheriff's Department for felony theft and attempted felony theft after she cashed $5,000 and attempted to cash another $1,000 of the American Express money orders allegedly stolen from Republic Federal.

- Two RTC property managers, a husband and wife, pleaded guilty in November 1992 to embezzling from RTC. The property managers had been responsible for managing several apartment complexes administered by RTC as receiver and conservator for Western Savings and Loan Association. An OIG investigation found that while managing the apartment complexes, the couple stole approximately $5,535 in rental receipts and deposits due RTC.

cc: Mr. Casey
Mr. Hove
Mr. Monroe

OFFICE OF
INSPECTOR
GENERAL

RESOLUTION TRUST
CORPORATION

January 21, 1993

Mr. Peter H. Monroe
President
Thrift Depositor Protection
Oversight Board

Dear Peter:

We are providing information on Office of Inspector General (OIG) activities for inclusion in the backup book for the upcoming February 1, 1993, Thrift Depositor Protection Oversight Board meeting.

Price Waterhouse HomeFed Due Diligence Contract

Since October 1992, our Activity Reports sent to Mr. Brady and Oversight Board briefing materials have discussed our audit of RTC's contract with Price Waterhouse (PW) for due diligence coordination activities at HomeFed Bank, San Diego, California. The current contract specifies that PW's work at HomeFed "may extend as long as the end of this calendar year." However, due in part to changes in RTC's disposition plan for HomeFed, PW is currently projecting work through March 1993.

Our analysis has shown that PW has realized excessive mark-ups on labor costs for temporary and professional employees. For example, PW charged RTC 138 percent more than it was billed for temporary employees and 74 percent more than it was billed by the subcontractor for professionals.

Because of the excessive mark-up realized by PW since the inception of the contract, we issued a memorandum to RTC's Director, Office of Contracts, on December 21, 1992, recommending that RTC's Office of Contracts issue a new contract or amend the current contract to better protect RTC's interests by, among other things, reducing hourly rates for temporary agency employees and professional contractors used by PW.

We will continue to review activities in this area to identify any other potential cost recoveries and to determine whether there is any fraud involved with the contract.

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Status of Ongoing Board Requested Audits/Reviews

We continue to examine allegations regarding the conduct of professional liability litigation, hiring practices of the Legal Division, and the realignment of field legal offices. Our examination has been extended by allegations made during the course of our review regarding improper conduct by Legal Division employees and improper handling of professional liability cases at several additional institutions. To date, we have interviewed over 100 individuals and analyzed professional liability cases at 21 institutions.

Audit Follow-up

Pursuant to your request, we are providing information on RTC's audit follow-up and the actions taken by RTC and our office to implement an audit follow-up system. RTC has taken steps to implement a recommendation tracking system that could be adapted to help management ensure that effective action is completed on audit recommendations. However, we believe this system is only informational and needs to be coupled with procedures and requirements outlined in a formal policy.

We have been working with RTC management to implement a formal audit follow-up policy which would establish shared responsibilities between OIG and RTC management for carrying out audit follow-up procedures and requirements. In late December 1992, we provided a draft directive to RTC management that includes such procedures and requirements. We expect to receive their comments on the draft later this month.

Pages 7 and 8 of this report discuss audit follow-up in more detail, including what we believe are the most significant benefits and requirements of a formal follow-up policy.

In addition, we are again providing information on OIG recommendations that RTC has not fully responded to or implemented since our inception. As of January 14, 1993, there are 31 OIG recommendations that have been open for at least 60 days without a management decision, 22 of which have been open for over 180 days. Pages 10 through 22 of this report discuss in more detail the status of these open recommendations.

Receivership Audits

To date, we have completed audits of five receiverships and four more are in process. Because RTC has consolidated about two-thirds of its receiverships into its field offices, OIG audit work will be conducted at the consolidated

receiverships and be supplemented by independent public accountant (IPA) audits of selected unconsolidated receiverships.

OIG staff have started survey work on an audit of RTC's consolidated receiverships. We have selected four RTC offices to review--Atlanta, Kansas City, Costa Mesa, and Dallas. Our audit will focus on determining whether all major income has been received and whether expenditures are appropriate. We will also ensure that transactions were properly recorded and adjusting entries made to eliminate balances in suspense accounts were appropriate. We are also in the process of contracting with IPAs to audit 10 of the larger unconsolidated receiverships. We expect that solicitations for services for these audits will be issued later this month.

Our audits complement and supplement the work RTC management is doing to review this area. RTC used IPAs to conduct pilot audits of five receiverships, the results of which we reviewed, and has recently hired an IPA to perform a nationwide internal control review of receivership operations.

Reports Provided to RTC Management

We have issued six final reports since the December Board meeting. Copies of these audit reports have been provided upon issuance to the Oversight Board staff for distribution to Board members. Summaries of these final reports are provided in this report as indicated.

-- Development and Implementation of the Contracting Activity Reporting System and Related Systems - Page 24

-- Receivership Operations at the Kansas City Office and Minneapolis Consolidated Office - Page 27

-- Oversight of Project Funding and Revenues - Page 29

-- Sunbelt Savings' Interim Service Agreement Expenditures - Page 31

-- Management of Mt. Holly/Elk Meadows Resort - Page 33

-- Asset Management Contractor, Pillar Investment Co. - Page 35

Eight draft audit reports have been issued to RTC management for comment and are in various stages of completion. Summaries of these draft reports are contained in this report as indicated, and copies of the draft reports are available upon request.

-- Income from Real Estate Sales by the RTC's Tampa Office - Page 38

-- Bidder Selection Process in Denver, Phoenix, and California Field Offices - Page 39

-- Internal Controls Over Claims Processing - Page 40

-- Asset Management Contractor, R&B Realty Group - Page 41

-- Selected Assets Managed by Resolution Management Associates - Page 42

-- J&S/AM&G Standard Asset Management and Disposition Agreements - Page 43

-- RTC's Management of the Concord Center One Office Building and Uptowner Athletic Club - Page 44

We are also providing a list of our ongoing audits, per the Oversight Board's request, on pages 47 through 49 of this report.

Significant Investigative Activity

Our investigations continue to generate indictments, convictions, arrests, and/or media attention. The cases below represent highlights of our investigative activity since our prior report.

-- Four Convicted and Ordered to Make Restitution of $699,000 for Defrauding an RTC-Controlled Institution - Page 51

-- Judge Freezes $700,000 in Assets of Individual Under Investigation for Filing False Financial Statements - Page 57

-- Businessman Indicted After Allegedly Submitting Over $192,000 in False Invoices - Page 65

-- Arrests Made in Investigation of 6,750 Money Orders Found Missing From a Failed Institution - Page 68

-- California Man Sentenced for Attempted Bribe of RTC Asset Manager - Page 71

-- RTC Employee Removed for Failing to Report Loan That Results in $16,000 Loss to RTC - Page 72

Other investigations resulted in a $60,000 fine, three convictions, three guilty pleas, one pre-trial diversion, and one indictment.

If the Directors would like additional information on the material we are providing, please let me know.

Sincerely yours,

John J. Adair

John J. Adair
Inspector General

MEETING OF FEBRUARY 8, 1993

1. UPDATE ON PRICE WATERHOUSE CONTRACT INVOLVING DOCUMENT MANAGEMENT AND PHOTOCOPYING AT HOMEFED, SAN DIEGO

-- PEOPLE IN DENNIS GEER'S ORGANIZATION ARE TRYING TO RENEGOTIATE THE TERMS AND CONDITIONS OF THE PRICE WATERHOUSE HOMEFED CONTRACT.

-- PRICE WATERHOUSE, WE ARE TOLD, HAS AGREED TO EITHER RETROACTIVELY REDUCE ITS CHARGES, OR TO REDUCE FUTURE CHARGES.

-- FOR BILLINGS UP UNTIL SEPTEMBER 30, 1992, THE AVERAGE COST PER PAGE OF COPYING CHARGED BY PRICE WATERHOUSE IS ABOUT 67 CENTS.

-- FOR VIRTUALLY THE SAME TYPE OF WORK -- ON HOMEFED DOCUMENTS INADVERTENTLY SHIPPED TO TEXAS -- XEROX CHARGED 11.5 CENTS.

-- THUS, PRICE WATERHOUSE APPEARS TO BE CHARGING ABOUT 6 TIMES WHAT XEROX PRESUMABLY WOULD HAVE CHARGED.

-- ADDITIONAL COST TO SEPTEMBER 30, 1992, IS ABOUT $ 5.8 MILLION.

2. GAO IS REVIEWING THE HOMEFED RESOLUTION, AND IS AWARE OF THE PRICE WATERHOUSE CONTRACT.

3. SENATE GOVERNMENTAL AFFAIRS COMMITTEE AND BANKING COMMITTEE HAVE BEEN MAKING INQUIRIES ABOUT HOMEFED AND PRICE WATERHOUSE.

4. WASHINGTON POST CALLED OUR INVESTIGATORS IN CALIFORNIA TO ASK IF WE HAD OPENED AN INVESTIGATION ON PRICE WATERHOUSE.

5. HOMEFED/PRICE WATERHOUSE CONTRACT HAS A NUMBER OF SIMILARITIES TO WESTERN STORM CONTRACT.

-- USED A BOA (BASIC ORDERING AGREEMENT) FOR ASSET VALUATION SERVICES TO AWARD A CONTRACT PRIMARILY FOR DOCUMENT MANAGEMENT AND PHOTOCOPYING.

-- PERSON SIGNING CONTRACT EXCEED DELEGATED AUTHORITY

-- BOA WAS FOR $ 4 MILLION -- ESTIMATED COST OF PRICE WATERHOUSE CONTRACT IS $ 25 MILLION.

-- CONTRACT WAS AWARDED WITHOUT CONSULTING WITH THE OFFICE OF CONTRACTS, OR WITH THE LEGAL DIVISION.

-- THE CONTRACTOR, PRICE WATERHOUSE, APPEARS TO BE MAKING EXCESSIVE PROFITS.
(138 % MARKUP ON WORK PERFORMED BY TEMPORARIES)

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